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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY, an Arizona
corporation,

Complainant,

vs.

GLOBAL WATER RESOURCES, LLC, a
foreign limited liability company; GLOBAL
WATER RESOURCES, INC., a Delaware
corporation; GLOBAL WATER
MANAGEMENT, LLC, a foreign limited
liability company; SANTA CRUZ WATER
COMPANY, LLC, an Arizona limited liability
corporation; PALO VERDE UTILITIES
COMPANY, LLC, an Arizona limited liability
corporation; GLOBAL WATER - SANTA
CRUZ WATER COMPANY, an Arizona
corporation; GLOBAL WATER - PALO
VERDE UTILITIES COMPANY, an Arizona
corporation; JOHN AND JANE DOES 1-20;
ABC ENTITIES I - XX,

Respondents.

DOCKET NOS.

W-01445A-06-0200

SW-20445A-06-0200

W-20446A-06-0200

W-03576A-06-0200

SW-03575A-06-0200

**ARIZONA WATER COMPANY'S
DESIGNATION OF DEPOSITION
TRANSCRIPTS**

Arizona Corporation Commission

DOCKETED

AUG 03 2007

DOCKETED BY

nr

Arizona Water Company hereby provides the Commission with copies of the
transcripts of the Deposition of Trevor Hill, taken June 18, 2007, and of the Deposition of
Cynthia Liles, taken on June 26, 2007. As part of its pre-filed direct testimony, Arizona

Water Company hereby designates the following portions of the testimony of Mr. Hill and Ms. Liles:

A. Deposition of Trevor Hill

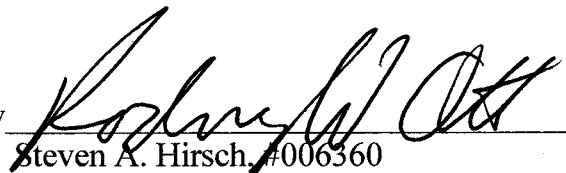
1. Page 36, line 17, through page 39, line 19.
2. Page 55, line 4, through page 56, line 10.
2. Page 71, line 22, through page 74, line 19.
3. Page 78, line 11, through page 80, line 25.
4. Page 82, line 22, through page 88, line 3.

B. Deposition of Cynthia Liles

1. Page 17, line 3, through page 33, line 10.
2. Page 43, line 14, through page 69, line 25.

RESPECTFULLY SUBMITTED this 3rd day of August, 2007.

BRYAN CAVE LLP

By 

Steven A. Hirsch, #006360

Rodney W. Ott, #016686

Two N. Central Avenue, Suite 2200

Phoenix, AZ 85004-4406

Attorneys for Arizona Water Company

ORIGINAL and 13 COPIES of the foregoing
filed this 3rd day of August, 2007 with:

Docket Control Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

1 **COPY** of the foregoing hand-delivered/
2 mailed this 3rd day of August, 2007 to:

3 Dwight D. Nodes [hand-delivered]
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8 Phoenix, AZ 85007

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28

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23
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25
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28

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2

3 ARIZONA WATER COMPANY, an)

4 Arizona corporation,) Nos. W-01445A-06-0200

) SW-20445A-06-0200

) W-20446A-06-0200

5) W-03576A-06-0200

) SW-03575A-06-0200

6)

7 GLOBAL WATER RESOURCES, LLC,)

8 a foreign limited liability)

9 company; GLOBAL WATER)

10 RESOURCES, INC., a Delaware)

11 corporation; GLOBAL WATER)

12 MANAGEMENT, LLC, a foreign)

13 limited liability company;)

14 SANTA CRUZ WATER COMPANY, LLC,)

15 an Arizona limited liability)

16 corporation; PALO VERDE)

17 UTILITIES COMPANY, LLC, an)

18 Arizona limited liability)

19 corporation; GLOBAL WATER -)

20 SANTA CRUZ WATER COMPANY, an)

21 Arizona corporation; GLOBAL)

22 WATER - PALO VERDE UTILITIES)

23 COMPANY, an Arizona)

24 corporation; JOHN AND JANE)

25 DOES 1-20; ABC ENTITIES 1-XX,)

)

) Respondents.

18

19 THE DEPOSITION OF TREVOR HILL

20 Phoenix, Arizona

21 June 18, 2007

22 1:44 p.m.

23 PREPARED FOR:

24 CONDENSED COPY & INDEX

25

 REPORTED BY:

 Marty Herder, CCR

 Certified Court Reporter

 CCR No. 50162

<p style="text-align: right;">Page 2</p> <p>1 INDEX</p> <p>2 Examination By: Page:</p> <p>3 Mr. Hirsch 4</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8 EXHIBITS</p> <p>9 No. 1 Notice of Rule 30(b)(6) Deposition</p> <p>10 No. 2 Global Water Ownership flowchart</p> <p>11 No. 3 Infrastructure Coordination Agreement</p> <p>12 dated January 20, 2007 between Phoenix Capital</p> <p>13 Partners and Elliott Homes</p> <p>14 No. 4 Infrastructure Coordination and Finance</p> <p>15 Agreement dated December 1, 2005 between</p> <p>16 Global Water Resources and SVVM 80 Limited</p> <p>17 Partnership</p> <p>18 No. 5 Infrastructure Coordination and Finance</p> <p>19 Agreement dated December 30, 2006 between</p> <p>20 Global Water Resources and CHI Construction</p> <p>21 Company</p> <p>22 No. 6 Memorandum of Understanding dated</p> <p>23 December 19, 2005 between Global Water</p> <p>24 Resources and the City of Casa Grande.</p> <p>25 No. 7 May 23, 2006 letter to Delia M. Carlyle from</p> <p>Trevor Hill</p>	<p style="text-align: right;">Page 4</p> <p>1 Phoenix, Arizona</p> <p>2 June June, 2007</p> <p>3 1:44 p.m.</p> <p>4</p> <p>5 TREVOR HILL,</p> <p>6 called as a witness herein, having been first duly sworn,</p> <p>7 was examined and testified as follows:</p> <p>8 EXAMINATION</p> <p>9 BY MR. HIRSCH:</p> <p>10 Q. Would you state your full name for the record,</p> <p>11 please?</p> <p>12 A. Trevor T. Hill.</p> <p>13 Q. And could you give us your residence and business</p> <p>14 addresses?</p> <p>15 A. My residence address is 42528 North Back Creek</p> <p>16 Way, Anthem, Arizona, 85086.</p> <p>17 My business address is 22601 North 19th Avenue,</p> <p>18 Suite 210, Phoenix, Arizona, 85027.</p> <p>19 Q. We're here for a deposition in what's known as the</p> <p>20 formal complaint proceeding docket number 06-0200,</p> <p>21 generally.</p> <p>22 Have you had your deposition taken before, sir?</p> <p>23 A. No.</p> <p>24 Q. Since this is your maiden voyage, let me go over a</p> <p>25 few rules of the road that I would like to apply today.</p>
<p style="text-align: right;">Page 3</p> <p>1 THE DEPOSITION OF TREVOR HILL,</p> <p>2 Taken at 1:44 p.m., on June 18, 2007 at the Law Offices of</p> <p>3 BRYAN CAVE LLP, Two North Central Avenue, Suite 2200,</p> <p>4 Phoenix, Arizona, 85004, before Marty Herder, Certified</p> <p>5 Court Reporter, pursuant to the Rules of Civil Procedure.</p> <p>6</p> <p>7 COUNSEL APPEARING:</p> <p>8 For the Plaintiff:</p> <p>9 ARIZONA WATER COMPANY</p> <p>10 BY: Robert W. Geake, Esq.</p> <p>11 P.O. Box 29006</p> <p>12 Phoenix, Arizona 85004</p> <p>13 BRYAN CAVE LLP</p> <p>14 BY: Steven A. Hirsch, Esq.</p> <p>15 and Rodney W. Ott, Esq.</p> <p>16 Two North Central Avenue</p> <p>17 Suite 2200</p> <p>18 Phoenix, Arizona 85004</p> <p>19 For the Defendant:</p> <p>20 ROSHKA DEWULF & PATTEN, PLC</p> <p>21 BY: John E. Dewulf, Esq.</p> <p>22 and Timothy J. Sabo, Esq.</p> <p>23 400 East Van Buren</p> <p>24 Suite 800</p> <p>25 Phoenix, Arizona 85004</p>	<p style="text-align: right;">Page 5</p> <p>1 First, I'll try to make my questions as clear as I</p> <p>2 can. But sometimes I'll fail.</p> <p>3 Would you please stop me and ask me to restate the</p> <p>4 question if you don't understand it?</p> <p>5 A. Is that a question?</p> <p>6 Q. Yes. Is that okay with you?</p> <p>7 A. That is okay with me.</p> <p>8 Q. We're not into the tough part yet.</p> <p>9 In turn, if you answer my questions, may I assume</p> <p>10 that you understood what I was asking you?</p> <p>11 A. Yes.</p> <p>12 Q. Do you have any reason today, Mr. Hill,</p> <p>13 medication-wise or health-wise or anything that you're not</p> <p>14 able to listen to and respond to my questions?</p> <p>15 A. No.</p> <p>16 Q. We're in a relatively informal room far from any</p> <p>17 courtroom or hearing room, but you understand that you've</p> <p>18 been placed under oath and your answers are being taken down</p> <p>19 by Mr. Herder here?</p> <p>20 A. Yes.</p> <p>21 Q. And that your answers are being recorded, and may</p> <p>22 be used against you or the firm you're associated with? Do</p> <p>23 you understand that?</p> <p>24 A. I do.</p> <p>25 Q. And that your answers are being given subject to</p>

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1 the penalties of perjury?

2 A. Yes.

3 Q. Finally, you've done a great job so far, but

4 because the court reporter can't take down a shake of the

5 head or a verbal grunt of some sort, please keep answering

6 yes or no so that we'll have a clear record. Okay?

7 A. Yes.

8 Q. Thank you.

9 You've given us in data responses -- we ought to

10 establish that, John and Tim, I think technically it may be

11 part of a filing, but we have certainly carried forward with

12 the understanding, and it would apply equally to Arizona

13 Water, that discovery responses and data request responses

14 in the certificate proceeding are usable, if you will, or

15 equally applicable to the formal complaint proceeding and

16 vice versa?

17 MR. DeWULF: I'm comfortable with that.

18 MR. HIRSCH: Okay. Thanks.

19 BY MR. HIRSCH:

20 Q. So we do have some data requests that explain your

21 background. I'm just going to ask a couple specific

22 questions before we get into the deposition noticed area.

23 Where is the Royal Military College?

24 A. In Kingston, Ontario.

25 Q. And is the program a bachelor's study in

Page 7

1 engineering, to the extent you know, fairly similar to a

2 American insurance graduate training?

3 A. I don't know.

4 Q. I take it it's a four-year school?

5 A. It is.

6 Q. Do you hold engineering licenses in any of the

7 U.S. states?

8 A. I do not.

9 Q. Did you hold licenses or do you hold licenses in

10 Canada?

11 A. Yes.

12 Q. Are they still current?

13 A. Yes.

14 Q. In Canada are they issued by province, or is it a

15 national certification, if you know?

16 A. They are issued by province.

17 Q. Which province do you hold licenses in?

18 A. British Columbia.

19 Q. Any others?

20 A. No.

21 Q. When did you approximately get the license in

22 B.C.?

23 A. I don't know.

24 Q. Shortly after your graduation or some years after

25 that?

Page 8

1 A. Some years after my graduation, to be sure.

2 Q. The answers appear to reflect that you started or

3 co-founded Hill, Murray & Associates in about the early to

4 mid '90s. Is that generally correct?

5 A. Yes.

6 Q. Did you have the engineering license by then?

7 A. I don't know.

8 Q. Has the Canadian license ever been the subject of

9 a complaint?

10 A. No.

11 Q. Has it ever been suspended or lapsed in any way?

12 A. No.

13 Q. Do you know the name of the entity that issues the

14 engineering license up there, Mr. Hill?

15 A. The association -- it's -- I'm not sure of the

16 exact name. The Association of Engineers of British

17 Columbia.

18 Q. Is it a government agency or a private group, if

19 you know?

20 A. It's a private group.

21 Q. So there's not a board of technical registration,

22 such as we would have here in Arizona, that issues and

23 maintains the licenses?

24 A. I don't know.

25 Q. When did you make the decision to start to conduct

Page 9

1 business in the U.S.?

2 A. 1999.

3 Q. And what was that decision based on?

4 A. Could you be more specific?

5 Q. Why did you decide to start doing business in the

6 U.S. as opposed to British Columbia and other areas in

7 Canada?

8 A. There is essentially no private regulated water

9 business in Canada.

10 Q. What do you mean by that? Everything is

11 governmental?

12 A. Right.

13 Q. And what does that observation have to do with you

14 wanting to come to the U.S. to do business?

15 A. Well, there is a private regulated water center in

16 the United States.

17 Q. Did you consult with anyone about starting to do

18 business down here, or was this something that you kind of

19 envisioned yourself personally?

20 A. I envisioned it personally.

21 Q. And where was your target area in terms of doing

22 business initially?

23 A. Southwestern United States.

24 Q. And we know from your answers there was some

25 involvement in Arizona and Texas, potentially elsewhere.

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1 **Why did you pick the southwestern U.S.?**
 2 A. Because of growth and water scarcity.
 3 **Q. Why were those two factors important to you?**
 4 A. Well, growth business is a business in which you
 5 can, you know, make a living.
 6 **Q. What was it about growth that gave you an**
 7 **indication that you could make a living at it?**
 8 A. I felt the Arizona market would have good
 9 potential for growth in the future.
 10 **Q. And what did water scarcity have to do with your**
 11 **decision to focus on the southwest?**
 12 A. I believe that the southwestern water situation
 13 would make an interesting challenge.
 14 **Q. In what way?**
 15 A. In that it requires more complex planning and
 16 careful management than Canada, where water is abundant.
 17 **Q. Did you target any other states other than Arizona**
 18 **and Texas for your initial business plans?**
 19 A. No.
 20 **Q. Any reasons you haven't told us as to why you**
 21 **looked at those two states?**
 22 A. No.
 23 **Q. What was your business plan when you came down to**
 24 **the Arizona and Texas area?**
 25 MR. DeWULF: Object to form.

Page 11

1 MR. HIRSCH: You can answer.
 2 THE WITNESS: Could you restate the question?
 3 BY MR. HIRSCH:
 4 **Q. What was your business plans? What were you**
 5 **trying to accomplish?**
 6 A. The plan was to aggregate water and wastewater
 7 businesses in the southwestern United States.
 8 **Q. And what do you mean by aggregate?**
 9 A. Consolidate.
 10 **Q. So to acquire them and combine them in some way?**
 11 MR. DeWULF: Object to form.
 12 BY MR. HIRSCH:
 13 **Q. I'm trying to get your words, not mine. What do**
 14 **you mean by aggregate?**
 15 A. To acquire them.
 16 **Q. Where were you going to come up with capital to do**
 17 **so?**
 18 A. Are you -- are you referring to Global Water, or
 19 when I arrived in the United States?
 20 **Q. The latter of those two. We're going to bring it**
 21 **up to the present day, but when you arrived in the United**
 22 **States what was your plan in terms of capital to fuel such**
 23 **acquisitions?**
 24 A. I raised the money required in the Canadian
 25 market.

Page 12

1 **Q. And from whom?**
 2 A. From Algonquin Power Income Trust.
 3 **Q. And what had your connections been, if any, with**
 4 **that entity?**
 5 A. I met them when I was out attempting to raise
 6 money for this first venture.
 7 **Q. And you say this first venture, you mean the**
 8 **southwestern U.S. venture?**
 9 A. Correct.
 10 **Q. And the question was how did you come to know them**
 11 **or believe that they might be interested in this?**
 12 A. They had just raised a pool of capital.
 13 **Q. For similar purposes or what?**
 14 A. For infrastructure investments.
 15 **Q. In the U.S.?**
 16 A. They do work in both U.S. and Canada.
 17 **Q. Have you, by the way, maintained your Canadian**
 18 **citizenship?**
 19 A. I have.
 20 **Q. So you're a citizen of Canada and not the U.S.?**
 21 A. That's correct.
 22 **Q. And what legal immigration status do you have**
 23 **currently in the U.S.?**
 24 A. I have a green card.
 25 **Q. Okay. Approximately how much capital did you**

Page 13

1 **understand you had committed to your plan when you arrived**
 2 **in Arizona?**
 3 A. \$50 million.
 4 **Q. And can you describe for us what the -- was there**
 5 **any specific type of business you were looking to acquire?**
 6 **With a little more specificity, what was the plan to use the**
 7 **capital for at that time?**
 8 A. The plan was to acquire cash flowing, regulated
 9 water and wastewater businesses in the southwestern United
 10 States.
 11 **Q. Did you have any particular such companies in mind**
 12 **when you arrived?**
 13 A. I did.
 14 **Q. And let's get some focus now.**
 15 **You indicated 1999 was the year you made the**
 16 **decision to come down.**
 17 **When would you characterize you actually came down**
 18 **and started to implement the plan here in Arizona?**
 19 A. I arrived in Arizona permanently in March of 2001.
 20 **Q. At that point did you have your eye on any**
 21 **particular utilities?**
 22 A. Yes.
 23 **Q. Which were those?**
 24 A. I arrived concurrent to the closing of the first
 25 acquisition, which was Black Mountain Sewer Company.

<p style="text-align: right;">Page 14</p> <p>1 Q. In the Carefree, Cave Creek area?</p> <p>2 A. That's correct.</p> <p>3 Q. And what made that particular utility stand out as</p> <p>4 a target to you?</p> <p>5 A. It was a wastewater utility which my previous</p> <p>6 business career had been focused around, wastewater</p> <p>7 enterprise, and it had active water reuse program involved</p> <p>8 in it.</p> <p>9 Q. Would you describe what about active water reuse</p> <p>10 made it attractive to you as a target?</p> <p>11 A. I'm personally interested in water reuse, so</p> <p>12 that's what made it attractive.</p> <p>13 Q. What type of program did they have in place at</p> <p>14 that time?</p> <p>15 A. They use their reclaimed water for irrigation of</p> <p>16 their golf courses.</p> <p>17 Q. Would you agree with me that there were dozens of</p> <p>18 such utilities that were doing that at about that time?</p> <p>19 MR. DeWULF: Object to form.</p> <p>20 THE WITNESS: No.</p> <p>21 BY MR. HIRSCH:</p> <p>22 Q. You thought that Black Mountain was somewhat</p> <p>23 unique in reusing effluent on water courses?</p> <p>24 A. Yes.</p> <p>25 Q. Was there anything else about Black Mountain that</p>	<p style="text-align: right;">Page 16</p> <p>1 you arrived in Arizona in 2001 for Algonquin?</p> <p>2 MR. DeWULF: Object to form.</p> <p>3 THE WITNESS: Can you rephrase the question?</p> <p>4 BY MR. HIRSCH:</p> <p>5 Q. Yes.</p> <p>6 Perhaps the problem was the word colleagues.</p> <p>7 Coworkers or folks that you were in business with?</p> <p>8 A. Yes.</p> <p>9 Q. And who they be?</p> <p>10 A. Graham Simmons and Leo Commandeur.</p> <p>11 Q. And were you paid a percentage of the acquisition</p> <p>12 or were you on a straight salary? How did the compensation</p> <p>13 arrangement work at that time?</p> <p>14 A. I had a salary, plus a commission.</p> <p>15 Q. And how was the commission determined?</p> <p>16 A. The commission was determined on a calculation of</p> <p>17 accretiveness to the fund.</p> <p>18 Q. If I try to translate that, basically if the value</p> <p>19 of the fund went up as a result of the acquisition you</p> <p>20 shared in some percentage of that?</p> <p>21 If that's not right, please tell us in your words</p> <p>22 how the commission was calculated.</p> <p>23 A. Yeah, the fund's value per se doesn't go up or</p> <p>24 down as a function of an acquisition. So the commission is</p> <p>25 calculated on the board's determination of the potential</p>
<p style="text-align: right;">Page 15</p> <p>1 made it attractive to you as a target?</p> <p>2 A. No.</p> <p>3 Q. What is Algonquin Water Resources of America?</p> <p>4 A. It is a U.S. holdco for the utilities we acquired.</p> <p>5 Q. Did you have an ownership interest in Algonquin</p> <p>6 Water Resources?</p> <p>7 A. I did not.</p> <p>8 Q. Were you an officer in that entity?</p> <p>9 A. I don't know. I don't think so.</p> <p>10 Q. Was title to the utilities that were acquired</p> <p>11 placed in Algonquin Water Resources of America?</p> <p>12 A. Yes.</p> <p>13 Q. And were these acquisitions by asset purchase or</p> <p>14 stock purchase or both?</p> <p>15 A. Primarily stock purchase.</p> <p>16 Q. And was there a reason for that mechanism?</p> <p>17 A. The reason for stock purchase is primarily for the</p> <p>18 seller's tax advantage.</p> <p>19 Q. Can you explain that to me?</p> <p>20 A. Asset -- well, I'm not an accountant.</p> <p>21 Q. I won't hold you to that standard.</p> <p>22 A. Asset purchases tend to attract double taxation.</p> <p>23 Stock purchase can typically get a capital gains</p> <p>24 treatment.</p> <p>25 Q. Did you have colleagues in the business back when</p>	<p style="text-align: right;">Page 17</p> <p>1 accretiveness of the acquisition.</p> <p>2 Q. What do you mean by accretiveness?</p> <p>3 A. My understanding of the word accretiveness means</p> <p>4 the incremental value created as a result of.</p> <p>5 Q. So it was a discretionary bonus based on what the</p> <p>6 board thought the utility might be worth in the future?</p> <p>7 A. Yes.</p> <p>8 Q. Was there a factor of analyzing your success in</p> <p>9 buying utilities that might be undervalued?</p> <p>10 A. Yes.</p> <p>11 Q. How long did you work with the Algonquin fund?</p> <p>12 A. Approximately three years.</p> <p>13 Q. And approximately how many utilities were you</p> <p>14 involved in acquiring during those years?</p> <p>15 A. Seven.</p> <p>16 Q. How many in Arizona?</p> <p>17 A. Five.</p> <p>18 Q. Could you name them?</p> <p>19 A. Black Mountain Sewer Company, Gold Canyon Utility</p> <p>20 Company, Bella Vista Water Company, and the Lipsco, which</p> <p>21 was two utilities, I count them as two, water, Litchfield</p> <p>22 Park Services Company that had water and wastewater.</p> <p>23 Q. Those are the five then?</p> <p>24 A. Yes.</p> <p>25 Q. And the other two were in Texas, I take it?</p>

<p style="text-align: right;">Page 18</p> <p>1 A. That's correct.</p> <p>2 Q. What were their names?</p> <p>3 A. Tall Timbers Utilities Company.</p> <p>4 Q. Where was that based?</p> <p>5 A. These are both in Tyler.</p> <p>6 I can't remember the other one's name.</p> <p>7 Q. What led to your decision to leave Algonquin?</p> <p>8 A. The metrics that allowed for their determination</p> <p>9 of a successful acquisition didn't relate well to emerging</p> <p>10 market areas that had more growth potential.</p> <p>11 Q. And can you explain that a little bit more? What</p> <p>12 about the metrics that didn't actually gauge the up side?</p> <p>13 A. Algonquin Power Income Trust is a REIT, which pays</p> <p>14 cash distributions to its unit holders on a monthly basis.</p> <p>15 And it was my belief that that wasn't an ideal</p> <p>16 structure for utilities that required extensive capital</p> <p>17 investment.</p> <p>18 Q. Did you begin to think about forming your own</p> <p>19 company that would have more flexibility in acquisitions?</p> <p>20 A. Yes.</p> <p>21 Q. And tell me what went into that thought process.</p> <p>22 A. I was interested in finding local, patient</p> <p>23 investors that understood the development market in the</p> <p>24 Phoenix area, and that would be less interested in the</p> <p>25 immediacy of the return, as opposed to a long-term view.</p>	<p style="text-align: right;">Page 20</p> <p>1 A. I do.</p> <p>2 Q. Did you have a hand in preparing it?</p> <p>3 A. Yes.</p> <p>4 Q. The response obviously is later than 2003, but I</p> <p>5 thought it would be good to have this before us to form a</p> <p>6 basis of a few questions here.</p> <p>7 Let me ask this first. To the best of your</p> <p>8 knowledge, Mr. Hill, is the flow chart accurate as of</p> <p>9 today's date?</p> <p>10 A. No.</p> <p>11 Q. There's some updates to be made to it?</p> <p>12 A. There are.</p> <p>13 Q. Is it possible for you to briefly characterize</p> <p>14 those to us or even use a pen and draw them in?</p> <p>15 A. I can just tell you that we no longer own</p> <p>16 Cave Creek and Pacer. They were condemned by the City</p> <p>17 several weeks ago.</p> <p>18 Q. And what has happened to those corporate entities,</p> <p>19 if you know?</p> <p>20 A. The corporate entities -- the corporate entities</p> <p>21 still exist.</p> <p>22 Q. I take it the City, having condemned the assets,</p> <p>23 they have no asset base at this time?</p> <p>24 A. That's correct.</p> <p>25 Q. What are Global's plans for the two corporate</p>
<p style="text-align: right;">Page 19</p> <p>1 Q. And is it possible for you, Mr. Hill, to generally</p> <p>2 define long-term view in terms of years?</p> <p>3 A. For me, a long-term view is greater than five</p> <p>4 years.</p> <p>5 Q. And can you describe for us, and we're obviously</p> <p>6 into the deposition request designation, so I'm just going</p> <p>7 to keep going here and we'll look at it shortly, but can you</p> <p>8 describe for us how you went about seeking out the new</p> <p>9 investors in the new company?</p> <p>10 A. I had acquired the Bella Vista Water Company from</p> <p>11 the Cracchiolo family, and it was a positive experience for</p> <p>12 both sides of that transaction. And as a result of that I</p> <p>13 had mentioned to Dan Cracchiolo the concept of Global Water</p> <p>14 Resources, and he offered to introduce me to a local</p> <p>15 investor.</p> <p>16 Q. And approximately what year was the time you</p> <p>17 mentioned the concept of what became Global to</p> <p>18 Mr. Cracchiolo?</p> <p>19 A. In 2003.</p> <p>20 Q. Let's go ahead, and I'll ask you to look at</p> <p>21 Exhibit 2.</p> <p>22 Exhibit 2 is a chart that was produced by Global</p> <p>23 Water in response to data request in the certificate</p> <p>24 proceeding.</p> <p>25 Do you generally recognize it?</p>	<p style="text-align: right;">Page 21</p> <p>1 entities you've mentioned?</p> <p>2 MR. DeWULF: To the extent that it would reveal</p> <p>3 competitively sensitive information that may be covered</p> <p>4 already in the discovery dispute that's the subject of a</p> <p>5 motion to compel, I instruct you not to answer.</p> <p>6 But if you can answer without getting into those</p> <p>7 kinds of topics, go ahead.</p> <p>8 THE WITNESS: Okay. The corporate shells exist.</p> <p>9 We really have no plans for them at this time.</p> <p>10 MR. HIRSCH: John, I have not, as is obvious from</p> <p>11 the transcript, belabored questions in terms of the</p> <p>12 consideration paid back in the Algonquin days for those</p> <p>13 seven utilities, and I gather that the objection that's the</p> <p>14 subject of the motion to compel remains in place for this</p> <p>15 deposition in terms of the consideration paid for</p> <p>16 acquisitions by Global?</p> <p>17 MR. DeWULF: It would.</p> <p>18 Those issues which I think are the subject of the</p> <p>19 discovery dispute and the CC&N proceedings we would take a</p> <p>20 similar position here. Some of those details I'm not</p> <p>21 completely familiar with.</p> <p>22 MR. HIRSCH: Neither am I.</p> <p>23 MR. DeWULF: But, yeah, as a general proposition,</p> <p>24 you will get objections in those areas until we get a</p> <p>25 decision from the ALJ.</p>

<p style="text-align: right;">Page 22</p> <p>1 MR. HIRSCH: And I am operating under the same</p> <p>2 belief and wavelength.</p> <p>3 I will not belabor the record or take Mr. Hill's</p> <p>4 or your time asking questions and having you instruct him</p> <p>5 not to answer.</p> <p>6 We'll just proceed that the underlying</p> <p>7 consideration for these various acquisitions is out of</p> <p>8 bounds. Fair enough?</p> <p>9 MR. DeWULF: That's fine.</p> <p>10 BY MR. HIRSCH:</p> <p>11 Q. Okay. Back to Exhibit 2 here, Mr. Hill, who was</p> <p>12 the -- first off, were there any other connections or</p> <p>13 updates that you are aware of?</p> <p>14 A. No.</p> <p>15 Q. Who was the investor that Dan Cracchiolo</p> <p>16 introduced you to?</p> <p>17 A. Bill Levine.</p> <p>18 Q. Had you worked with Mr. Levine before?</p> <p>19 A. No.</p> <p>20 Q. What was your pitch, if you will, to Mr. Levine in</p> <p>21 terms of investing in your venture?</p> <p>22 A. Well, Algonquin Water Resources was a very</p> <p>23 successful venture, and I outlined a business plan that had</p> <p>24 similar potential.</p> <p>25 Q. And what was that business plan?</p>	<p style="text-align: right;">Page 24</p> <p>1 Q. Putting together Global, did you have in mind,</p> <p>2 Mr. Hill, that Algonquin was going to have any role in</p> <p>3 Global.</p> <p>4 A. No.</p> <p>5 Q. What was your planned transition from Algonquin to</p> <p>6 Global?</p> <p>7 A. I resigned.</p> <p>8 Q. Did Global take any steps to acquire any of the</p> <p>9 utilities that Algonquin had acquired?</p> <p>10 A. No.</p> <p>11 Q. Did Algonquin replace you with anybody, to your</p> <p>12 knowledge?</p> <p>13 A. I don't know.</p> <p>14 Q. Did Algonquin continue to have any acquisition</p> <p>15 activities in Arizona after you left them, to your</p> <p>16 knowledge?</p> <p>17 A. Yes.</p> <p>18 Q. What did they do?</p> <p>19 A. They acquired Rio Rico. And I read of a few</p> <p>20 acquisitions in other areas.</p> <p>21 Q. Here in Arizona?</p> <p>22 A. I do not believe so.</p> <p>23 Q. Are they still in an ownership position of the</p> <p>24 utilities that you had a role in acquiring?</p> <p>25 A. Yes.</p>
<p style="text-align: right;">Page 23</p> <p>1 A. To acquire regulated water and wastewater</p> <p>2 enterprises in the southwest United States.</p> <p>3 Q. And to do what with them after they were acquired?</p> <p>4 A. To grow them and focus on our unique ability to</p> <p>5 manage water scarcity.</p> <p>6 Q. And that unique ability are the matters that you</p> <p>7 testified to at length in your pretrial testimony in the</p> <p>8 certificate case?</p> <p>9 A. I don't have that document in front of me.</p> <p>10 Q. Well, the triad of conservation and some of the</p> <p>11 initiatives that you contend that Global brings to the</p> <p>12 table?</p> <p>13 A. I will say that I have experience in water reuse.</p> <p>14 Q. What was Mr. Levine's response, generally?</p> <p>15 A. Favorable.</p> <p>16 Q. And how much capital were you looking to raise?</p> <p>17 A. \$100 million.</p> <p>18 Q. What happened next with regard to raising the</p> <p>19 capital?</p> <p>20 A. We drafted a term sheet, and he agreed to finance</p> <p>21 the project, the company.</p> <p>22 Q. And was this concept known as Global at that time?</p> <p>23 A. Yes.</p> <p>24 Q. Who came up with the name Global?</p> <p>25 A. I did.</p>	<p style="text-align: right;">Page 25</p> <p>1 Q. And in Rio Rico as well?</p> <p>2 A. I believe so.</p> <p>3 Q. Do you have any involvement with them at all the</p> <p>4 current day?</p> <p>5 A. I do not.</p> <p>6 Q. Now, we see across the top of Exhibit 2 other</p> <p>7 folks with an ownership interest in Global Water Resources</p> <p>8 and Global Water Management.</p> <p>9 I take it those percentage interests on Exhibit 2</p> <p>10 are identical for GWM, which I'll use for Global Water</p> <p>11 Management, and GWR, for Global Water Resources?</p> <p>12 A. Yes.</p> <p>13 Q. I see Mr. Cracchiolo's name next. If you could</p> <p>14 just, in your words, tell us how the formation of Global</p> <p>15 went from this term sheet to the various percentages that</p> <p>16 are shown on Exhibit 2?</p> <p>17 MR. DeWULF: Object to form.</p> <p>18 THE WITNESS: Could you rephrase the question?</p> <p>19 BY MR. HIRSCH:</p> <p>20 Q. Sure.</p> <p>21 You've described for us Mr. Levine's interest in</p> <p>22 investing in Global.</p> <p>23 If you could just give us a summary of how each of</p> <p>24 these other individuals acquired their percentage interest</p> <p>25 in Global?</p>

<p style="text-align: right;">Page 26</p> <p>1 MR. DeWULF: Object to form.</p> <p>2 If you know.</p> <p>3 BY MR. HIRSCH:</p> <p>4 Q. I don't know any way to state it more clearly,</p> <p>5 Mr. Hill.</p> <p>6 A. Well, this transaction was structured as a private</p> <p>7 equity transaction. So what that means is that there are</p> <p>8 two categories of holdings. This, these percentages</p> <p>9 represent the common stock holding, which is a -- which is</p> <p>10 the -- which is the percentages that are used when the</p> <p>11 initial capital plus its carried interest are returned to</p> <p>12 the original investors.</p> <p>13 Q. And what's the second category of holdings?</p> <p>14 A. Really the first category is called a pref, or</p> <p>15 preferential stock.</p> <p>16 And this is a second category called common.</p> <p>17 The way this deal was structured basically was a</p> <p>18 50/50 split of common stock, once the pref interest and</p> <p>19 principal were returned to the investors.</p> <p>20 That's the way it was initially contemplated when</p> <p>21 the deal was structured.</p> <p>22 Subsequently the stock was spread amongst my part</p> <p>23 of the management team and Bill's part of his board and</p> <p>24 members of his senior staff.</p> <p>25 Q. And when you say the stock, you mean the common</p>	<p style="text-align: right;">Page 28</p> <p>1 does that represent, if not cash in the deal?</p> <p>2 A. Could you help me again?</p> <p>3 Q. Certainly. I'll try.</p> <p>4 Exhibit 2 reflects that the three individuals, or</p> <p>5 is there four, did not have cash in the deal. It looks like</p> <p>6 three individuals, Liles, Simmons, and Cohn, did not have</p> <p>7 cash in the front end.</p> <p>8 So I was trying to determine how they got their</p> <p>9 percentage of common stock, if it wasn't in exchange for</p> <p>10 cash infusion.</p> <p>11 A. Oh. I understand.</p> <p>12 After the pref is paid off or replaced, this</p> <p>13 basically represents a carried interest for performance.</p> <p>14 Q. A type of consideration for services rendered to</p> <p>15 Global Water?</p> <p>16 A. Or to be rendered.</p> <p>17 Q. What was the rate of return that was agreed to</p> <p>18 with Mr. Levine on the pref?</p> <p>19 MR. DeWULF: Object to form.</p> <p>20 BY MR. HIRSCH:</p> <p>21 Q. Was there a rate of return? And what was it?</p> <p>22 MR. DeWULF: Is that something that you sought to</p> <p>23 protect from disclosure in the other matter?</p> <p>24 THE WITNESS: I don't know.</p> <p>25 MR. DeWULF: Can we put our heads together?</p>
<p style="text-align: right;">Page 27</p> <p>1 stock?</p> <p>2 A. Common, correct.</p> <p>3 Q. Has the initial preferred layer of obligation been</p> <p>4 satisfied at this point?</p> <p>5 MR. DeWULF: If you can answer that question</p> <p>6 without revealing information which would be the subject of</p> <p>7 the discovery dispute, then go ahead.</p> <p>8 THE WITNESS: No.</p> <p>9 BY MR. HIRSCH:</p> <p>10 Q. I will not get into details, understanding from</p> <p>11 counsel that would trigger further objections.</p> <p>12 I'll live with that response for now.</p> <p>13 Were there any other cash investors in the startup</p> <p>14 of Global other than Mr. Levine?</p> <p>15 A. Yes.</p> <p>16 Q. And who were they?</p> <p>17 A. Myself, Leo Commandeur, Dan Cracchiolo, and Bill</p> <p>18 Levine.</p> <p>19 Q. Did Mr. Cohn have any cash in the deal at the</p> <p>20 front end?</p> <p>21 A. No.</p> <p>22 Q. I take it Mr. Simmons and Ms. Liles did not</p> <p>23 either?</p> <p>24 A. That's correct.</p> <p>25 Q. How is their ownership of common stock -- what</p>	<p style="text-align: right;">Page 29</p> <p>1 MR. HIRSCH: We're about time for a break anyway.</p> <p>2 Let's take a break.</p> <p>3 (Brief recess taken.)</p> <p>4 MR. HIRSCH: We're back on the record after a</p> <p>5 break. Mr. DeWulf has reached a conclusion as to</p> <p>6 objections.</p> <p>7 MR. DeWULF: What I was conveying to counsel is</p> <p>8 that we're going to object to those questions which pertain</p> <p>9 to the respective interest of the shareholders in Global</p> <p>10 Water Resources and Global Water Management, what</p> <p>11 understandings they may have among them, what understandings</p> <p>12 they may have with the companies in which they hold an</p> <p>13 interest, including how much money they've advanced, what</p> <p>14 commitments they've made, what commitments may be made back</p> <p>15 to them as to return on whatever moneys they or services</p> <p>16 they may have rendered.</p> <p>17 MR. HIRSCH: Thank you. I'll respect that</p> <p>18 objection and just preserve the right that had I been</p> <p>19 allowed I would have made full inquiry into those matters,</p> <p>20 but we'll move on Mr. Hill and keep us on track.</p> <p>21 BY MR. HIRSCH:</p> <p>22 Q. I take it that when you formed Global you took</p> <p>23 Mr. Commandeur and Simmons with you?</p> <p>24 A. Yes.</p> <p>25 Q. And the other individuals who show as owners of</p>

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1 the common stock, let me ask as to their role, if any, in
 2 the management of either of the Global entities that are
 3 shown on Exhibit 2, the entities that they directly own the
 4 stock in.
 5 Does Mr. Levine have any management role of any
 6 kind?
 7 A. No.
 8 Q. Given his experience in the development industry,
 9 has he played any role in terms of advising you or directing
 10 the operations of either Global entity?
 11 MR. DeWULF: Could you read that back, please?
 12 (Pending question read.)
 13 MR. DeWULF: Object to form.
 14 THE WITNESS: Can you restate the question?
 15 BY MR. HIRSCH:
 16 Q. Let's break it down.
 17 Let's establish, I believe you're president of
 18 Global Water Resources, L.L.C.; is that correct?
 19 A. Yes.
 20 Q. And you have been since its formation?
 21 A. Yes.
 22 Q. Is the same true with Global Water Management,
 23 L.L.C.?
 24 A. Yes.
 25 Q. Now, they're L.L.C.s, so I understand that the

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1 corporate labels change a little bit, but you function as
 2 the chief executive officer of both of those entities, do
 3 you not?
 4 A. Yes.
 5 Q. My first question is: Has Mr. Levine given you
 6 direct advice as to how to run the affairs of either of
 7 those two Global entities?
 8 A. Mr. Levine is the chairman of the board of
 9 directors.
 10 Q. In that role what general subject matter type of
 11 advice, if any, does he give you as the chief executive
 12 officer?
 13 MR. DeWULF: Object to form.
 14 BY MR. HIRSCH:
 15 Q. Let me try to restate it.
 16 Nothing nefarious intended here.
 17 Is he -- trying to get a sense, Mr. Hill, if he's
 18 involved on a day-to-day basis in directing business
 19 affairs, or if he's more passive in his role?
 20 A. I would say he's passive.
 21 Q. What about Mr. Cohn? What is his role in the
 22 management or operations of Global Water Resources or Global
 23 Water Management?
 24 A. Passive.
 25 Q. And what's your understanding of Mr. Cohn's

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1 business relationship with Mr. Levine?
 2 MR. DeWULF: Object to form. You can tell what
 3 you know.
 4 THE WITNESS: I believe Mr. Cohn acts to manage
 5 Mr. Levine's investments of which Global is one.
 6 BY MR. HIRSCH:
 7 Q. And same question as to Dan Cracchiolo. Does he
 8 assert any active or have any active management role in
 9 Global Water Resources or Global Water Management?
 10 A. No.
 11 Q. Is his role more passive?
 12 A. Yes.
 13 Q. And I think the others have been described in
 14 testimony, so we'll leave them where they stand.
 15 What was, I'll just use the word generically,
 16 Global's first acquisition after it was formed?
 17 A. Global acquired -- Global Water Resources, L.L.C.,
 18 acquired Palo Verde and Santa Cruz.
 19 Q. Referring to Exhibit 2, we've had some question
 20 about Global Water, Inc. and its role, a Delaware C corp, in
 21 the Global Water family of companies here.
 22 Can you describe in your words what Global Water,
 23 Inc., what role it plays?
 24 A. Yes. Global Water, Inc., was established to be
 25 the holdco for acquired C corporations.

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1 Q. And you use that in the past tense.
 2 Does it still have that position?
 3 A. Yes.
 4 Q. Why is it that Santa Cruz Water Company, L.L.C.,
 5 and Palo Verde Utilities Company, L.L.C., are owned directly
 6 by Global Water Resources instead of by Global Water, Inc.?
 7 A. They were L.L.C.s at the time of acquisition.
 8 Q. And what is the reason for making that
 9 distinction?
 10 A. I don't understand the question.
 11 Q. Why did you have Global Water Resources acquire
 12 the two L.L.C. utilities, as opposed to Global Water, Inc.?
 13 Is there a tax reason or other business reason?
 14 MR. DeWULF: Object to form.
 15 THE WITNESS: Could you be more specific?
 16 BY MR. HIRSCH:
 17 Q. I don't know the answer, so I'm just asking why do
 18 those two entities show as being directly acquired or owned
 19 by Global Water Resources as opposed to Global Water, Inc.,
 20 if you know?
 21 A. The L.L.C.s were acquired by the L.L.C. holdco and
 22 the C corps were acquired by the C corp holdco.
 23 Q. If that's true, and I really don't know the answer
 24 here, why wouldn't Global Water, Inc., be on the same line,
 25 if you will, on the chart as Global Water Resources, L.L.C.,

<p style="text-align: right;">Page 34</p> <p>1 as opposed to being wholly owned by Global Water Resources?</p> <p>2 A. Well, it is wholly owned by Global Water</p> <p>3 Resources, L.L.C.</p> <p>4 Q. I guess what I am trying to get to, Mr. Hill, is I</p> <p>5 take it you are trying to draw a distinction between</p> <p>6 ownership of the L.L.C. entities in Global Water Resources,</p> <p>7 L.L.C.; correct?</p> <p>8 A. I'm not sure I understand that question.</p> <p>9 Q. You've made a choice to have Global Water</p> <p>10 Resources own the two utility L.L.C. entities, Santa Cruz</p> <p>11 and Palo Verde, L.L.C.; correct?</p> <p>12 MR. DeWULF: Object to form.</p> <p>13 THE WITNESS: Could you rephrase the question,</p> <p>14 please?</p> <p>15 BY MR. HIRSCH:</p> <p>16 Q. I don't know that I can.</p> <p>17 Is the chart correct that Global Water Resources</p> <p>18 owns 100 percent of Santa Cruz Water Company, L.L.C., and</p> <p>19 Palo Verde Utilities, L.L.C.?</p> <p>20 A. Yes.</p> <p>21 Q. Why the distinction between having the C corps</p> <p>22 owned by Global Water, Inc.?</p> <p>23 MR. DeWULF: Object to form.</p> <p>24 BY MR. HIRSCH:</p> <p>25 Q. If you know.</p>	<p style="text-align: right;">Page 36</p> <p>1 Q. Why were they formed?</p> <p>2 A. They were formed to hold the assets of Palo Verde</p> <p>3 and Santa Cruz. There's an application pending to transfer</p> <p>4 the assets from the L.L.C.s to the C corps, which I don't</p> <p>5 know if it's been approved or not.</p> <p>6 Q. And what is the business reason, if you know, for</p> <p>7 that request?</p> <p>8 A. It's our preference to have regulated utilities in</p> <p>9 the form of a C corp.</p> <p>10 Q. And why is that?</p> <p>11 A. We believe it's the preference of the Corporation</p> <p>12 Commission.</p> <p>13 Q. What is your belief as to why the Corporation</p> <p>14 Commission would prefer that?</p> <p>15 A. My belief is that they believe it gives them a</p> <p>16 better sense of control.</p> <p>17 Q. Was Global Water Management, L.L.C., formed at the</p> <p>18 same time as Global Water Resources, L.L.C.?</p> <p>19 A. No.</p> <p>20 Q. Global Water Management came later?</p> <p>21 A. Yes.</p> <p>22 Q. What made you decide to create Global Water</p> <p>23 Management, L.L.C.?</p> <p>24 A. Global Water Management was formed when it became</p> <p>25 clear that Global Water Resources would own multiple</p>
<p style="text-align: right;">Page 35</p> <p>1 A. As I stated, Global Water, Inc., was established</p> <p>2 to own C corps. For those utilities that are C corps, we</p> <p>3 acquire them in Global Water, Inc.</p> <p>4 Q. And the utilities that are L.L.C.s, you acquire</p> <p>5 them under Global Water Resources, L.L.C.?</p> <p>6 A. Correct.</p> <p>7 Q. Why? Why do you do that?</p> <p>8 A. For tax planning purposes.</p> <p>9 Q. What is the current status of Santa Cruz Water</p> <p>10 Company, L.L.C., and Palo Verde Utilities Company, L.L.C.?</p> <p>11 MR. DeWULF: Can you read that back, please?</p> <p>12 (Pending question read.)</p> <p>13 MR. DeWULF: Object to form.</p> <p>14 THE WITNESS: What do you mean by status?</p> <p>15 BY MR. HIRSCH:</p> <p>16 Q. The legal status of those two L.L.C.s as opposed</p> <p>17 to the two C corps that were created.</p> <p>18 A. They're L.L.C.s in good standing.</p> <p>19 Q. Which entities do you consider to be the active</p> <p>20 entities for the business of those two utilities, currently?</p> <p>21 A. The L.L.C.s are active currently.</p> <p>22 Q. Are the two C corps, which are known as Global</p> <p>23 Water - Santa Cruz Water Company and Global Water - Palo</p> <p>24 Verde Utilities, currently occupied in any business?</p> <p>25 A. No.</p>	<p style="text-align: right;">Page 37</p> <p>1 regulated utilities.</p> <p>2 Q. And why was it formed at that time?</p> <p>3 A. It was formed to provide a benefit of</p> <p>4 consolidation of management and operation to the various</p> <p>5 entities that Global acquires.</p> <p>6 Q. On Exhibit 2 there's five bullet points, starting</p> <p>7 with management and ending with engineering services.</p> <p>8 Are those among the services that you're</p> <p>9 referencing?</p> <p>10 A. Yes.</p> <p>11 Q. Is that still the model in use as of today?</p> <p>12 A. It is.</p> <p>13 Q. And there's an acronym or a word I didn't</p> <p>14 recognize three lines down in the text below the Global</p> <p>15 Water Management box where it says services to OPSCS. What</p> <p>16 does that mean?</p> <p>17 A. Operating companies.</p> <p>18 Q. So those would be the various individual utilities</p> <p>19 in the boxes over to the right of that text?</p> <p>20 A. Correct.</p> <p>21 Q. Is it the Global Water business plan that none of</p> <p>22 the individual utilities have their own in-house staffs</p> <p>23 performing management operations, billing, customer service,</p> <p>24 or engineering services?</p> <p>25 A. Yes.</p>

<p style="text-align: right;">Page 38</p> <p>1 Q. And is there a set industry standard chargeout 2 rate that these, the individual utilities, pay Global Water 3 Management for those services? 4 A. Could you be more specific? 5 Q. It says, paraphrasing, Global Water Management 6 provides management services to the operating entities under 7 the following headings at all industry standard chargeout 8 rates. 9 I was trying to determine what the industry 10 standard chargeout rates were. 11 A. Those rates were established by our management 12 team. 13 Q. What were they based on? 14 A. They were based on the cost provided to perform 15 those duties. 16 Q. Is there a profit component built into the 17 equation? 18 A. No. 19 Q. So it's a straight across passing on of the cost 20 and nothing more? 21 A. Correct. 22 Q. Does the industry standard chargeout rate 23 fluctuate, or is it reset annually, or how does that work? 24 A. The chargeout rates are established on a series of 25 metrics, but primarily based on the number of customers in</p>	<p style="text-align: right;">Page 40</p> <p>1 Global Water Management. 2 Q. And who holds what office? 3 A. In each case Mr. Levine is the managing member. 4 Q. And Mr. Cracchiolo and yourself are members? 5 A. Correct. 6 Q. And then I have seen the term, I believe, in the 7 answers president. 8 Is that used at all as to those L.L.C. entities 9 within your business? 10 A. Yes. 11 Q. And realizing that we'll leave that up to the 12 corporation lawyers, of which I don't think either 13 Mr. DeWulf or I are one from our law school days together, 14 who serves in what role in terms of officership labels? 15 A. I serve as president, from a functional capacity 16 in both entities. 17 Q. And did Mr. Cracchiolo or Mr. Levine have officer 18 labels? 19 A. They do not. 20 Q. Is there a treasurer or person considered to be 21 the treasurer? 22 A. I don't know. 23 Q. Let's move on to the acquisition of Santa Cruz and 24 Palo Verde. 25 How long did it take you to establish and</p>
<p style="text-align: right;">Page 39</p> <p>1 the utility. 2 Q. Do any of the individual utility entities that are 3 on the right-hand side of that text have their own employees 4 of record? 5 A. No. 6 Q. And I take it it is part of Global Water's 7 business plan that they will not have their own record 8 employees; correct? 9 A. Correct. 10 Q. What about Global Water Resources, L.L.C., as of 11 the present date, does it have employees? 12 A. No. 13 Q. Are all the employees of the enterprises then 14 under Global Water Management, L.L.C.? 15 A. Yes. 16 Q. And I apologize if this answer is buried in the 17 data request, but approximately how many employees does 18 Global Water Management, L.L.C., have? 19 A. Approximately 110. 20 Q. Is the officership of Global Water Management and 21 Global Water Resources the same? 22 A. Yes. 23 Q. Could you list what those are as of today? 24 A. For Global Water Resources, Bill Levine, Dan 25 Cracchiolo, and myself are officers. And it's the same for</p>	<p style="text-align: right;">Page 41</p> <p>1 capitalize Global Water? 2 MR. DeWULF: Object to form. 3 BY MR. HIRSCH: 4 Q. Maybe I'll break that out. 5 When did you consider that Global Water was ready 6 to acquire utilities? 7 A. November of 2003. 8 Q. And what was it about November of 2003 that causes 9 you to say that that is when it was ready to acquire? 10 A. The Global Water Resources, L.L.C., had been form. 11 Q. And the equity had been raised? 12 A. Yes. 13 Q. I want to ask this question without getting into 14 any attorney-client privilege, but just so I know the 15 players. I know my colleague Andrew Abraham, at Burch and 16 Cracchiolo, has been at some of the meetings. 17 Does Burch and Cracchiolo serve as counsel in any 18 way to Global Water? 19 A. Yes. 20 Q. Without revealing any advice or communications, 21 what is their role? 22 A. Andy Abraham serves as general counsel. 23 Q. And obviously the firm that's here with you today 24 representing you has had the lead in utility matters and at 25 the Arizona Corporation Commission for Global Water?</p>

<p style="text-align: right;">Page 42</p> <p>1 A. Well, they serve as regulatory counsel.</p> <p>2 Q. Are there any other lawyers or firms that you have</p> <p>3 a regular relationship with?</p> <p>4 A. What do you mean by lawyers or firms?</p> <p>5 Q. Well, we've covered Burch and Cracchiolo as having</p> <p>6 a general counsel role, and Roshka Patten DeWulf as being</p> <p>7 the regulatory counsel and all of their lawyers.</p> <p>8 Is there any other firm that you have an ongoing</p> <p>9 relationship with that provides you legal services?</p> <p>10 A. Yes.</p> <p>11 Q. Who would they be?</p> <p>12 A. We have our water lawyers, McGuire and Pierce.</p> <p>13 Q. Anyone else?</p> <p>14 A. I don't know.</p> <p>15 Q. What led you to consider the acquisition of Santa</p> <p>16 Cruz and Palo Verde?</p> <p>17 A. One of their partners told us it was for sale.</p> <p>18 Q. And who was that?</p> <p>19 A. I don't know.</p> <p>20 Q. There's a reference to a Mr. Reinbold, could that</p> <p>21 have been the person?</p> <p>22 A. Yes.</p> <p>23 Q. And did you know him before starting Global Water?</p> <p>24 A. I had met him before, on one occasion.</p> <p>25 Q. Were Santa Cruz/Palo Verde attractive targets for</p>	<p style="text-align: right;">Page 44</p> <p>1 Corporation Commission approval, was that your</p> <p>2 understanding?</p> <p>3 A. That is my understanding.</p> <p>4 Q. Is that another reason Global Water desired to</p> <p>5 structure the acquisition in that manner?</p> <p>6 MR. DeWULF: Object to form.</p> <p>7 MR. HIRSCH: You can answer if you know.</p> <p>8 THE WITNESS: No.</p> <p>9 BY MR. HIRSCH:</p> <p>10 Q. Were interests in any L.L.C.s acquired at or about</p> <p>11 the same time from Mr. Reinbold, or was it just Santa Cruz</p> <p>12 and Palo Verde?</p> <p>13 MR. DeWULF: Object to form.</p> <p>14 THE WITNESS: Could you rephrase?</p> <p>15 BY MR. HIRSCH:</p> <p>16 Q. Did you acquire anything else from Mr. Reinbold</p> <p>17 other than the two utilities?</p> <p>18 MR. DeWULF: Object to form.</p> <p>19 THE WITNESS: Can you be more specific?</p> <p>20 BY MR. HIRSCH:</p> <p>21 Q. No.</p> <p>22 Did Global Water acquire from Mr. Reinbold</p> <p>23 anything other than the membership interests in Santa Cruz</p> <p>24 Water Company, L.L.C., and Palo Verde Utilities Company,</p> <p>25 L.L.C.?</p>
<p style="text-align: right;">Page 43</p> <p>1 Global at that time?</p> <p>2 A. Yes.</p> <p>3 Q. What made them so?</p> <p>4 A. Those utilities were in an area that appeared to</p> <p>5 be poised for growth.</p> <p>6 Q. And as such they met the Global Water business</p> <p>7 plan?</p> <p>8 MR. DeWULF: Object to form.</p> <p>9 THE WITNESS: Could you restate that question?</p> <p>10 BY MR. HIRSCH:</p> <p>11 Q. That was one of the elements of the type of</p> <p>12 companies you were looking for under your business plan; is</p> <p>13 that not correct?</p> <p>14 A. Global Water looks to find companies that have</p> <p>15 growth potential.</p> <p>16 Q. And the acquisition of Santa Cruz and Palo Verde</p> <p>17 was via a stock purchase, was it not?</p> <p>18 A. Palo Verde and Santa Cruz are limited liability</p> <p>19 companies, so the acquisition was of membership interest.</p> <p>20 Q. I appreciate that correction.</p> <p>21 But it was through an acquisition of the</p> <p>22 membership interest as opposed to an asset purchase;</p> <p>23 correct?</p> <p>24 A. Correct.</p> <p>25 Q. And as such, the acquisition did not need</p>	<p style="text-align: right;">Page 45</p> <p>1 MR. DeWULF: Object to form.</p> <p>2 MR. HIRSCH: Can you give me a clue?</p> <p>3 MR. DeWULF: Maybe I'm not up to speed. We</p> <p>4 haven't established that Mr. Reinbold owned all the</p> <p>5 ownership interest of the entities. So you're presuming</p> <p>6 that's the case for your question.</p> <p>7 MR. HIRSCH: I don't know and I don't particularly</p> <p>8 care.</p> <p>9 I was trying to use that name as a shorthand.</p> <p>10 BY MR. HIRSCH:</p> <p>11 Q. Who did you consider to be the owners or the</p> <p>12 persons who controlled Palo Verde and Santa Cruz?</p> <p>13 A. The companies were owned by Phoenix Capital</p> <p>14 Partners.</p> <p>15 Q. That's what I am trying to get to.</p> <p>16 Who controlled Phoenix Capital Partners?</p> <p>17 A. I don't know.</p> <p>18 Q. I'll just ask directly. What, to your knowledge,</p> <p>19 was the relationship between Phoenix Capital Partners,</p> <p>20 L.L.C., and the two utility entities we described?</p> <p>21 A. Phoenix Capital Partners held the membership</p> <p>22 interests of Palo Verde Utilities Company and Santa Cruz</p> <p>23 Water Company.</p> <p>24 Q. Okay. Other than Phoenix Capital Partners and</p> <p>25 Santa Cruz and Palo Verde, were there any other L.L.C. or</p>

<p style="text-align: right;">Page 46</p> <p>1 corporate interests that Global Water acquired in that</p> <p>2 transaction?</p> <p>3 A. No.</p> <p>4 Q. Let me ask you to turn to Exhibit 3.</p> <p>5 Here's an extra copy.</p> <p>6 MR. DeWULF: Thanks, Steve.</p> <p>7 BY MR. HIRSCH:</p> <p>8 Q. I'll tell you, Mr. Hill, to speed this along, we</p> <p>9 tried to find some of the older versions of infrastructure</p> <p>10 coordination agreement, and we see one here that was</p> <p>11 produced between Phoenix Capital Partners, L.L.C., and</p> <p>12 Elliot Homes, Inc.</p> <p>13 Do you see that?</p> <p>14 A. Yes.</p> <p>15 Q. Now, a few questions generally.</p> <p>16 To the best of your knowledge, does this</p> <p>17 infrastructure coordination agreement appear to be entered</p> <p>18 into before Global acquired Phoenix Capital Partners?</p> <p>19 MR. DeWULF: Object to form.</p> <p>20 THE WITNESS: Could you restate?</p> <p>21 BY MR. HIRSCH:</p> <p>22 Q. Did you have anything to do with negotiating</p> <p>23 Exhibit 3?</p> <p>24 MR. DeWULF: You're talking about him</p> <p>25 individually; right?</p>	<p style="text-align: right;">Page 48</p> <p>1 Verde?</p> <p>2 A. No.</p> <p>3 Q. No?</p> <p>4 A. No.</p> <p>5 Q. I didn't get the answer.</p> <p>6 A. I'm sorry. No.</p> <p>7 Q. And Mr. Lansky is not Global Water's transactional</p> <p>8 lawyer, is he?</p> <p>9 A. He was for this transaction.</p> <p>10 Q. I see that he was involved for somebody in this</p> <p>11 transaction, apparently, because his name is on the front</p> <p>12 page and the fax line comes from his firm.</p> <p>13 What role, if any, did Global Water have in the</p> <p>14 negotiation or execution of Exhibit 3, if you know?</p> <p>15 A. No role.</p> <p>16 Q. What I was trying to get to earlier was, to the</p> <p>17 best of your knowledge, had this agreement been executed at</p> <p>18 the point in time that Global Water acquired Santa Cruz</p> <p>19 Water Company, L.L.C., and Palo Verde Utilities Company,</p> <p>20 L.L.C.?</p> <p>21 A. Yes.</p> <p>22 Q. Do you consider that Global Water acquired Phoenix</p> <p>23 Capital Partners, L.L.C.?</p> <p>24 A. No.</p> <p>25 Q. Did Phoenix Capital Partners, L.L.C., continue in</p>
<p style="text-align: right;">Page 47</p> <p>1 MR. HIRSCH: Him individually.</p> <p>2 THE WITNESS: No.</p> <p>3 BY MR. HIRSCH:</p> <p>4 Q. To the best of your knowledge, was this agreement,</p> <p>5 Exhibit 3, in place when Global Water acquired the interest</p> <p>6 of Phoenix Capital Partners?</p> <p>7 MR. DeWULF: Object to form.</p> <p>8 BY MR. HIRSCH:</p> <p>9 Q. Let me try that one again.</p> <p>10 Do you see that the signatures on Exhibit 3 appear</p> <p>11 to have been notarized in January of 2004, Mr. Hill?</p> <p>12 A. Yes, I see that.</p> <p>13 Q. And it seems to have been recorded, if we look at</p> <p>14 the recording stamp on Page 1, in May of '04. Would you</p> <p>15 agree with that?</p> <p>16 A. I would.</p> <p>17 Q. And as sometimes happens, it's recited to have</p> <p>18 been entered into as of December, but that's drawn through,</p> <p>19 and January is written, but they didn't change the year from</p> <p>20 '03 to '04.</p> <p>21 Would you agree with me that that appears to be</p> <p>22 the case?</p> <p>23 A. That appears to be the case.</p> <p>24 Q. As of January 20th of '04, had Global Water closed</p> <p>25 the acquisition of Phoenix Capital Partners/Santa Cruz/Palo</p>	<p style="text-align: right;">Page 49</p> <p>1 existence -- well, does Phoenix Capital Partners, L.L.C.,</p> <p>2 have any relationship with Global Water to this day?</p> <p>3 A. No.</p> <p>4 Q. Do you consider that Global Water stepped into the</p> <p>5 shoes of Phoenix Capital Partners, L.L.C., with respect to</p> <p>6 the obligations that are recited in Exhibit 3?</p> <p>7 MR. DeWULF: Object to form.</p> <p>8 THE WITNESS: Could you restate?</p> <p>9 BY MR. HIRSCH:</p> <p>10 Q. Sure. I'll try.</p> <p>11 Were the obligations inherent in the Exhibit 3</p> <p>12 infrastructure coordination agreement transferred to Global</p> <p>13 Water when it acquired Santa Cruz Water Company, L.L.C., and</p> <p>14 Palo Verde Utilities Company L.L.C.?</p> <p>15 A. Yes.</p> <p>16 Q. Would you agree that functionally Global Water</p> <p>17 became the coordinator after it acquired the two utilities?</p> <p>18 A. Could you define functionally?</p> <p>19 Q. Well, Global Water, specifically Resources L.L.C.,</p> <p>20 took over the position as coordinator from Phoenix Capital</p> <p>21 Partners, L.L.C.; correct?</p> <p>22 A. Yes.</p> <p>23 Q. To your knowledge, was there a transfer or</p> <p>24 assignment form or paperwork of any type to document that?</p> <p>25 A. I believe -- I believe this document was assigned</p>

<p style="text-align: right;">Page 50</p> <p>1 to Global Water Resources.</p> <p>2 Q. As part of its acquisition of Santa Cruz and Palo</p> <p>3 Verde, the utility companies?</p> <p>4 A. Yes.</p> <p>5 Q. Mr. Hill, did you -- I am trying to get to whose</p> <p>6 brainchild the concept of infrastructure coordination</p> <p>7 agreements are. Are they Mr. Lansky's? Are they</p> <p>8 Mr. Reinbold's as part of Phoenix Capital Partners? Do you</p> <p>9 know?</p> <p>10 A. I don't know.</p> <p>11 Q. You've indicated that Ms. Liles has been</p> <p>12 designated to testify as to the infrastructure coordination</p> <p>13 agreements. Do you defer to her as to how these agreements</p> <p>14 came about?</p> <p>15 MR. DeWULF: Are you referring specifically to</p> <p>16 Exhibit 3?</p> <p>17 BY MR. HIRSCH:</p> <p>18 Q. I mean generically infrastructure coordination</p> <p>19 agreements or infrastructure finance and coordination</p> <p>20 agreements.</p> <p>21 MR. DeWULF: Can you answer him?</p> <p>22 THE WITNESS: I believe the question is am I</p> <p>23 deferring to Cindy to answer these questions?</p> <p>24 MR. DeWULF: About these.</p> <p>25 THE WITNESS: Yes, I am deferring.</p>	<p style="text-align: right;">Page 52</p> <p>1 A. I believe I learned of its existence in the due</p> <p>2 diligence process.</p> <p>3 Q. In looking through the records of the utilities</p> <p>4 you found that they had entered into agreements similar to</p> <p>5 Exhibit 3?</p> <p>6 A. Yes.</p> <p>7 Q. Did you talk to Ms. Liles about them at that time?</p> <p>8 A. Yes.</p> <p>9 Q. And what was your understanding of her role with</p> <p>10 Phoenix Capital Partners at that time?</p> <p>11 MR. DeWULF: Object to form.</p> <p>12 BY MR. HIRSCH:</p> <p>13 Q. If you know. I'm asking what your understanding</p> <p>14 was.</p> <p>15 A. Can you repeat the question?</p> <p>16 Q. What role or position did she appear to have with</p> <p>17 Phoenix Capital Partners?</p> <p>18 A. She appeared to be the utility manager at the time</p> <p>19 of acquisition.</p> <p>20 Q. And the utility manager for Palo Verde and</p> <p>21 Santa Cruz?</p> <p>22 A. Yes.</p> <p>23 Q. Had you worked with Ms. Liles before at all?</p> <p>24 A. No.</p> <p>25 Q. How did it come about that she joined the Global</p>
<p style="text-align: right;">Page 51</p> <p>1 BY MR. HIRSCH:</p> <p>2 Q. Appreciating that, and we'll talk to her next week</p> <p>3 apparently, did you have anything to do with the concept of</p> <p>4 the ICFA or ICA agreements, or was the concept already in</p> <p>5 place when Global Water acquired Santa Cruz and Palo Verde?</p> <p>6 A. This agreement was in place when we acquired</p> <p>7 Palo Verde and Santa Cruz.</p> <p>8 Q. I understand. I think we established that the</p> <p>9 agreement was already in place, but was the concept of this</p> <p>10 method of coordinating the provision of utilities for a fee,</p> <p>11 was that something that you had any involvement in?</p> <p>12 A. I would say that I, after the acquisition of</p> <p>13 Palo Verde and Santa Cruz, I had a role in improving the</p> <p>14 documents.</p> <p>15 Q. When do you recall first hearing the concept of a</p> <p>16 coordination agreement in the utility field in Arizona?</p> <p>17 A. I don't know.</p> <p>18 Q. Had you heard of such a thing when you were with</p> <p>19 Algonquin?</p> <p>20 A. No.</p> <p>21 Q. Did it first come to your attention as part of</p> <p>22 your discussions leading up to the acquisitions of</p> <p>23 Santa Cruz and Palo Verde?</p> <p>24 A. Yes.</p> <p>25 Q. Do you remember who you heard it from?</p>	<p style="text-align: right;">Page 53</p> <p>1 Water team?</p> <p>2 A. She was an employee of the utilities, and we took</p> <p>3 all of the employees of the utilities at the time of the</p> <p>4 acquisition.</p> <p>5 Q. How many were there, to the best of your</p> <p>6 recollection?</p> <p>7 A. I don't know.</p> <p>8 Q. Were there five or six? Or 50? Do you have any</p> <p>9 idea?</p> <p>10 A. Five or six.</p> <p>11 Q. Were there any field, you know, operations and</p> <p>12 maintenance type of people? Or were they all more office</p> <p>13 staff?</p> <p>14 A. They were all office staff.</p> <p>15 Q. Do you remember approximately how many active</p> <p>16 services Palo Verde and Santa Cruz had when you acquired</p> <p>17 them, or Global Water acquired them?</p> <p>18 A. Approximately 1600 homes.</p> <p>19 Q. And how were the maintenance and operations</p> <p>20 services being performed if they were not being performed by</p> <p>21 employees at that time?</p> <p>22 A. They were performed by contract operations group.</p> <p>23 Q. And who was that?</p> <p>24 A. Severn Trent.</p> <p>25 Q. This was an independent contractor group that</p>

<p style="text-align: right;">Page 54</p> <p>1 performed those services for the utilities?</p> <p>2 A. Yes.</p> <p>3 Q. And did you, after the utilities were acquired,</p> <p>4 have any business relationship with Severn Trent?</p> <p>5 A. Immediately after the acquisition we continued to</p> <p>6 use Severn Trent, yes.</p> <p>7 Q. For how long?</p> <p>8 A. Perhaps six months.</p> <p>9 Q. And then what happened to them?</p> <p>10 A. We made the decision to internalize operations.</p> <p>11 Q. Did that lead to the formation of Global Water</p> <p>12 Management?</p> <p>13 A. They're unrelated.</p> <p>14 Q. When was Global Water Management formed</p> <p>15 approximately?</p> <p>16 A. I don't know. I think early '04.</p> <p>17 Q. When you say you made the decision to internalize</p> <p>18 the operations, did that mean you transferred it to Global</p> <p>19 Water Management to perform the bullet point tasks that we</p> <p>20 looked at on Exhibit 2 earlier?</p> <p>21 A. No.</p> <p>22 Q. What did you mean you did?</p> <p>23 A. It means that we went from a contract operation to</p> <p>24 operations being performed by Global Water Management</p> <p>25 employees.</p>	<p style="text-align: right;">Page 56</p> <p>1 A. I do not.</p> <p>2 Q. Do you believe it was Ms. Liles?</p> <p>3 A. It may have been. I don't know.</p> <p>4 Q. What lead you to believe, Mr. Hill, or what do you</p> <p>5 base your answer on that the amount to be filled in to the</p> <p>6 payment obligation is an approximation of an interest carry?</p> <p>7 A. That is how it was described to me in the due</p> <p>8 diligence.</p> <p>9 Q. By who?</p> <p>10 A. By Ms. Liles.</p> <p>11 Q. Had Phoenix Capital Partners, or either of the</p> <p>12 acquired utilities, entered into any memoranda of</p> <p>13 understanding or what you've called P-3 agreements at the</p> <p>14 time that you acquired those utilities?</p> <p>15 A. No.</p> <p>16 Q. Had you entered into such agreements while you</p> <p>17 were at Algonquin?</p> <p>18 A. No.</p> <p>19 Q. How did that concept come about?</p> <p>20 A. When you say that concept?</p> <p>21 Q. The concept of what you now use the term P-3</p> <p>22 agreements.</p> <p>23 A. These utilities were established before the City</p> <p>24 of Maricopa was incorporated. And when the City of Maricopa</p> <p>25 incorporated in '05, there were more than one utility</p>
<p style="text-align: right;">Page 55</p> <p>1 Q. And no longer independently contracted out, to</p> <p>2 outside entities, those services?</p> <p>3 A. Correct.</p> <p>4 Q. What, I think you used the word improvements, did</p> <p>5 you feel once you began to analyze the infrastructure</p> <p>6 coordination agreement, such as we see in Exhibit 3, could</p> <p>7 be done to that agreement?</p> <p>8 A. I don't know.</p> <p>9 Q. Do you know how the amount of the payment</p> <p>10 obligation such as we see on paragraph four on Page 3 of</p> <p>11 Exhibit 3 was calculated?</p> <p>12 A. Could you tell me the page number again, please?</p> <p>13 Q. Paragraph four on Page 3. 2200 per EDU.</p> <p>14 A. Well, I didn't write this agreement, but I believe</p> <p>15 the amount of the payment is an approximation of interest</p> <p>16 carry.</p> <p>17 Q. Did you look into those matters during the due</p> <p>18 diligence period?</p> <p>19 A. Yes.</p> <p>20 Q. Did you eventually have a role in deciding that</p> <p>21 the infrastructure coordination agreement methodology would</p> <p>22 be something that Global Water would carry forward after the</p> <p>23 acquisition?</p> <p>24 A. Yes.</p> <p>25 Q. Do you know who came up with the idea?</p>	<p style="text-align: right;">Page 57</p> <p>1 serving in their jurisdictional boundaries.</p> <p>2 The City was concerned as to the nature of utility</p> <p>3 services, and I deemed it appropriate to structure a</p> <p>4 cooperative methodology for working with the new city.</p> <p>5 Q. And what was the cooperative methodology that you</p> <p>6 came up with?</p> <p>7 A. A P-3 agreement.</p> <p>8 Q. Tell me -- so the first one was with Maricopa?</p> <p>9 A. Yes.</p> <p>10 Q. And just tell me in your own words how it came</p> <p>11 about.</p> <p>12 A. Well, the City was concerned about water and the</p> <p>13 availability of water for their long-term planning</p> <p>14 objectives. And they were concerned about delivering</p> <p>15 infrastructure quickly enough to meet their growth</p> <p>16 requirements. And they were concerned about the development</p> <p>17 community playing too much of a role in that regard.</p> <p>18 Q. And what do you mean by the development community</p> <p>19 playing too much of a role?</p> <p>20 A. Having the development community build the</p> <p>21 infrastructure.</p> <p>22 Q. What did you hear yourself was the basis of that</p> <p>23 concern as expressed by the Maricopa officials at that time?</p> <p>24 A. They were concerned as to the quality of utility</p> <p>25 being employed in the neighboring utility.</p>

<p style="text-align: right;">Page 58</p> <p>1 Q. And which utility was that?</p> <p>2 A. It was the 387 district.</p> <p>3 Q. And the 387 district had a service area that was</p> <p>4 incorporated into the new town?</p> <p>5 A. That's correct.</p> <p>6 Q. How was that first P-3 agreement put together?</p> <p>7 Did you have a form that you used that you had seen</p> <p>8 elsewhere, or did you just come up with it from scratch, or</p> <p>9 what?</p> <p>10 A. Really, the city manager of Maricopa used the term</p> <p>11 P-3 in the context of asking the question if there could be</p> <p>12 a cooperative relationship between a private utility and a</p> <p>13 municipal entity. Which I thought was a good idea. And we</p> <p>14 jointly crafted a methodology of formalizing a manner in</p> <p>15 which we could work cooperatively.</p> <p>16 Q. And I think I've established this, but the</p> <p>17 Maricopa agreement was the first such P-3 agreement that</p> <p>18 Global Water entered into?</p> <p>19 A. Yes.</p> <p>20 MR. DeWULF: Whenever is a good time to break,</p> <p>21 Steve, I'd like to take a break.</p> <p>22 MR. HIRSCH: Okay. We're just about there.</p> <p>23 And this is, I think, one of the last adversarial</p> <p>24 aspects of the motion to compel, but we have one for</p> <p>25 Casa Grande that I'll ask about shortly that has been marked</p>	<p style="text-align: right;">Page 60</p> <p>1 THE WITNESS: I was one member of a team of people</p> <p>2 who worked on this agreement.</p> <p>3 BY MR. HIRSCH:</p> <p>4 Q. Who else was on the team?</p> <p>5 A. General counsel for Global.</p> <p>6 Q. Mr. Abraham?</p> <p>7 A. Mr. Abraham.</p> <p>8 Regulatory counsel.</p> <p>9 Q. And who at your regulatory counsel firm personally</p> <p>10 was involved?</p> <p>11 A. Ray Heyman.</p> <p>12 Q. Thank you.</p> <p>13 A. Members of my management team.</p> <p>14 Q. Did this P-3 agreement contain any significantly</p> <p>15 different terms or conditions as you recall than the</p> <p>16 Maricopa agreement?</p> <p>17 A. No.</p> <p>18 Q. It was the same general concept carried forward?</p> <p>19 A. Yes.</p> <p>20 Q. Referencing paragraph four of the agreement, which</p> <p>21 talks about the operating/license agreement and fees, how</p> <p>22 was that manner of calculating the fee arrived at?</p> <p>23 A. Could you restate the question for me, please?</p> <p>24 Q. I'll try.</p> <p>25 Paragraph four speaks in terms of the parties</p>
<p style="text-align: right;">Page 59</p> <p>1 as six, and a letter agreement with Ak-Chin, but we do not</p> <p>2 seem to have the Maricopa one.</p> <p>3 Again, I don't think there's any objection to</p> <p>4 producing it.</p> <p>5 We just need it.</p> <p>6 With that, let's take a break.</p> <p>7 (Brief recess taken.)</p> <p>8 BY MR. HIRSCH:</p> <p>9 Q. Let's start with Exhibit 6, which should be in</p> <p>10 that stack before you.</p> <p>11 Here's an extra copy for counsel.</p> <p>12 MR. DeWULF: Thank you.</p> <p>13 BY MR. HIRSCH:</p> <p>14 Q. Do you recognize this memorandum of understanding,</p> <p>15 Mr. Hill?</p> <p>16 A. I do.</p> <p>17 Q. In the chronological series of events relating to</p> <p>18 P-3 agreements, would this be the second one that Global</p> <p>19 Water had entered into?</p> <p>20 A. Yes.</p> <p>21 Q. And can you tell me your role in terms of the</p> <p>22 negotiation and execution of this memorandum of</p> <p>23 understanding?</p> <p>24 MR. DeWULF: Could you read that back, please?</p> <p>25 (Pending question read.)</p>	<p style="text-align: right;">Page 61</p> <p>1 entering into an operating/license agreement for utility</p> <p>2 services.</p> <p>3 Do you see that?</p> <p>4 A. I do.</p> <p>5 Q. Has that been entered into at this date?</p> <p>6 A. When you say that, what do you mean?</p> <p>7 Q. Has an operating/license agreement as contemplated</p> <p>8 in paragraph four of Exhibit 6 been entered into as of the</p> <p>9 present date?</p> <p>10 A. Yes.</p> <p>11 Q. When approximately was it entered into?</p> <p>12 A. I don't know.</p> <p>13 Q. How was the fee set forth in paragraph four, which</p> <p>14 changes depending on certain events occurring in 2006, how</p> <p>15 was that entered into or reached?</p> <p>16 A. The City has arrangements with other utility</p> <p>17 companies, and I believe they represented to us that this</p> <p>18 fee was an equivalent to a franchise fee that they would</p> <p>19 expect from any utility serving in their jurisdictional</p> <p>20 boundaries.</p> <p>21 Q. And do you know what percentage was eventually</p> <p>22 arrived at in the operating/license agreement that was</p> <p>23 entered into or has been entered into with the City?</p> <p>24 A. I believe it's what's represented in paragraph</p> <p>25 four.</p>

<p style="text-align: right;">Page 62</p> <p>1 Q. Two percent or three percent?</p> <p>2 A. Correct.</p> <p>3 Q. Which one is it?</p> <p>4 A. Well, two percent until the franchise fee or</p> <p>5 franchise election is passed. And three percent thereafter.</p> <p>6 Q. I'm not sure we have a copy of the executed</p> <p>7 agreement, so we'd call for that to be produced.</p> <p>8 That's a comment for your counsel here.</p> <p>9 And then I'm going to ask the question as to</p> <p>10 paragraph 11 fee, the \$100 for water and wastewater, or \$50</p> <p>11 for only one service.</p> <p>12 How was that amount arrived at?</p> <p>13 A. I don't know how that number was arrived at.</p> <p>14 Q. Did you have anything to do with that negotiation,</p> <p>15 or did other members of the team?</p> <p>16 A. I was involved in that negotiation.</p> <p>17 Q. Can you recall whether it was intended to</p> <p>18 approximate a particular event or figure, or was it just a</p> <p>19 number that arose in the negotiations not necessarily tied</p> <p>20 to any particular item?</p> <p>21 A. It arose in negotiation and was not tied to any</p> <p>22 particular item.</p> <p>23 Q. And has Global Water paid the fee anticipated in</p> <p>24 paragraph 11 of Exhibit 6 to Casa Grande as of this date?</p> <p>25 A. No.</p>	<p style="text-align: right;">Page 64</p> <p>1 letter.</p> <p>2 A. I've got one.</p> <p>3 Q. Let me show you what has been produced in the</p> <p>4 proceedings to date, a letter from Global Water to the</p> <p>5 chairman of the Ak-Chin Indian community dated May 23, 2006.</p> <p>6 Do you recognize this?</p> <p>7 A. I do.</p> <p>8 Q. And has this letter of understanding been</p> <p>9 converted to a formal, any other formal documentation beyond</p> <p>10 this, sir?</p> <p>11 A. It has not.</p> <p>12 Q. This letter does not appear to have some of the</p> <p>13 terms and conditions that the Casa Grande agreement, such as</p> <p>14 fees.</p> <p>15 Were fees discussed with the Ak-Chin community?</p> <p>16 A. No.</p> <p>17 Q. Was it understood that Global Water would not be</p> <p>18 paying a fee to the Ak-Chin community during the</p> <p>19 negotiations?</p> <p>20 A. Yes.</p> <p>21 Q. What was the basis of their not being a fee in the</p> <p>22 Ak-Chin agreement?</p> <p>23 MR. DeWULF: Object to form.</p> <p>24 THE WITNESS: Would you mind restating?</p> <p>25</p>
<p style="text-align: right;">Page 63</p> <p>1 Q. Does that await the outcome of what we call the</p> <p>2 certificate proceeding and the awarding of a CCN?</p> <p>3 A. No.</p> <p>4 Q. What event will precipitate the paying of the</p> <p>5 voluntary fee by Global to Casa Grande?</p> <p>6 A. A residential hookup.</p> <p>7 Q. And as of this date there have been no residential</p> <p>8 hookups?</p> <p>9 A. Correct.</p> <p>10 Q. Are there any anticipated?</p> <p>11 A. Can you define what you mean by the word</p> <p>12 anticipated?</p> <p>13 Q. Are there any that are anticipated to be hooked up</p> <p>14 in the next 60 days?</p> <p>15 A. No.</p> <p>16 Q. And has any of the paragraph four franchise-like</p> <p>17 fee been paid from Global Water Resources to City of Casa</p> <p>18 Grande?</p> <p>19 A. No.</p> <p>20 Q. Have the events that require such a payment of</p> <p>21 such a fee occurred yet?</p> <p>22 A. No.</p> <p>23 Q. What would those events be?</p> <p>24 A. The presence of revenue.</p> <p>25 Q. Let's turn to Exhibit 7, which is the Ak-Chin</p>	<p style="text-align: right;">Page 65</p> <p>1 BY MR. HIRSCH:</p> <p>2 Q. Can you explain to us why there's no fee</p> <p>3 anticipated with the Ak-Chin community as opposed to the fee</p> <p>4 anticipated with Casa Grande?</p> <p>5 A. The letter of understanding with the Ak-Chin is</p> <p>6 not about money.</p> <p>7 Q. What is it about, in your view?</p> <p>8 A. It's about the Ak-Chin's interest in regional</p> <p>9 water planning.</p> <p>10 Q. Are there further agreements that are</p> <p>11 contemplated, yet to be negotiated between Global Water and</p> <p>12 the Ak-Chin community?</p> <p>13 A. No.</p> <p>14 Q. Does Global Water anticipate that it will be</p> <p>15 paying a franchise-like fee or a hookup fee of any nature to</p> <p>16 the Ak-Chin community in the future?</p> <p>17 A. We do not anticipate that.</p> <p>18 Q. Are there any other P-3 or P-3 like agreements</p> <p>19 that Global Water has entered into other than with</p> <p>20 Casa Grande, Maricopa, and the Ak-Chin community?</p> <p>21 A. No.</p> <p>22 Q. Are there any others in the works in terms of</p> <p>23 negotiations at present?</p> <p>24 MR. DeWULF: Object to form.</p> <p>25</p>

<p style="text-align: right;">Page 66</p> <p>1 BY MR. HIRSCH:</p> <p>2 Q. Are there any others that are contemplated at</p> <p>3 present?</p> <p>4 MR. DeWULF: This may be the subject of discovery</p> <p>5 disputes in the other matter. We're talking about future</p> <p>6 plans of business.</p> <p>7 I'm only raising this as a precaution.</p> <p>8 Is this an area that you're comfortable talking</p> <p>9 about?</p> <p>10 MR. HIRSCH: I don't think it is part of the</p> <p>11 dispute in the other case.</p> <p>12 MR. DeWULF: Is it?</p> <p>13 MR. SABO: I don't know whether you asked that</p> <p>14 particular question.</p> <p>15 MR. HIRSCH: I don't know that I did.</p> <p>16 MR. DeWULF: Can I have the question back, please?</p> <p>17 BY MR. HIRSCH:</p> <p>18 Q. Let me restate it to move it along.</p> <p>19 I'm just asking whether Global Water is engaged in</p> <p>20 any similar discussions with any other municipality or</p> <p>21 governmental entity or Indian community.</p> <p>22 A. I think it's fair to say that Global Water</p> <p>23 believes in public private partnerships.</p> <p>24 Q. I understand that, sir.</p> <p>25 Are there any other discussions under way at</p>	<p style="text-align: right;">Page 68</p> <p>1 A. It's paragraph four.</p> <p>2 Q. Thank you.</p> <p>3 Have any sums been paid by Global Water or any of</p> <p>4 the regulated utilities within the Global Water family to</p> <p>5 Maricopa as of this date?</p> <p>6 A. Yes.</p> <p>7 Q. And this is part of an ongoing effort by Arizona</p> <p>8 Water Company to look at the journal entries or other</p> <p>9 accountings.</p> <p>10 Are you personally familiar with how many fees</p> <p>11 have been paid to Maricopa under that P-3 agreement?</p> <p>12 A. No.</p> <p>13 Q. Would that be a figure we could derive from</p> <p>14 Global's journal entries and accounting records?</p> <p>15 A. Yes.</p> <p>16 Q. Okay. I'll call upon on the record for that</p> <p>17 information, which has already been part of what has been</p> <p>18 sought in visits by others to Global's offices. Not me</p> <p>19 thankfully.</p> <p>20 The sums paid by Global Water to Maricopa, do you</p> <p>21 know which entity paid those sums?</p> <p>22 A. Global Water Resources.</p> <p>23 Q. I'm going to ask you to go back to Exhibit 2 and</p> <p>24 talk a little bit about infusion of capital or equity into</p> <p>25 the Santa Cruz and Palo Verde utility entities.</p>
<p style="text-align: right;">Page 67</p> <p>1 present with any other such entity towards a P-3 agreement?</p> <p>2 A. No.</p> <p>3 Q. And the answers to the data request reflect that</p> <p>4 when the fees are going to be paid, when those conditions</p> <p>5 occur in the future, that the fees will be paid by Global</p> <p>6 Water Resources, L.L.C., rather than by any of the regulated</p> <p>7 utilities. Is that your understanding?</p> <p>8 MR. DeWULF: Would you read that back, please?</p> <p>9 (Pending question read.)</p> <p>10 THE WITNESS: No.</p> <p>11 BY MR. HIRSCH:</p> <p>12 Q. Let's take it first as to the City of Casa Grande.</p> <p>13 Isn't that agreement with Global Water Resources,</p> <p>14 L.L.C.?</p> <p>15 A. Yes.</p> <p>16 Q. And isn't it anticipated that Global Water</p> <p>17 Resources, L.L.C., will be making the payment, under that</p> <p>18 agreement, Exhibit 6?</p> <p>19 A. Well, it says that Global Water Resources shall</p> <p>20 make the payment until the ACC has approved an order that</p> <p>21 grants the franchise in the regulated utility, at which time</p> <p>22 it becomes an ACC approved franchise agreement in which case</p> <p>23 the regulated utilities pay.</p> <p>24 Q. And can you give me the reference to the agreement</p> <p>25 where you're deriving that information?</p>	<p style="text-align: right;">Page 69</p> <p>1 The responses to the data requests which you've</p> <p>2 been a part basically state that 100 percent of the equity</p> <p>3 in Santa Cruz Water Company and Palo Verde Utilities Company</p> <p>4 have come from the parent entity.</p> <p>5 Do you generally agree with that?</p> <p>6 A. Yes.</p> <p>7 Q. And you've described for us in general terms how</p> <p>8 you acquired capital for the acquisition program that Global</p> <p>9 Water has undertaken.</p> <p>10 I want to shift my inquiry now to how capital may</p> <p>11 flow from the parent entity to the regulated utilities</p> <p>12 subsidiaries in day-to-day terms, as they are operating.</p> <p>13 Okay?</p> <p>14 A. Okay.</p> <p>15 MR. DeWULF: You're not asking him to adopt all</p> <p>16 that.</p> <p>17 MR. HIRSCH: No.</p> <p>18 MR. DeWULF: Just that that's where you're going?</p> <p>19 MR. HIRSCH: As a set-up.</p> <p>20 MR. DeWULF: Definitely a set-up.</p> <p>21 BY MR. HIRSCH:</p> <p>22 Q. I'll try to approach this generally.</p> <p>23 Can you describe for us how capital flows from</p> <p>24 Global Water Resources, L.L.C., to particularly Santa Cruz</p> <p>25 Water Company and Palo Verde Utilities Company?</p>

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1 **And by that I mean, is there a set schedule where**
 2 **capital is infused in those entities, or is it an on-call**
 3 **basis? How does it work generally?**
 4 MR. DeWULF: I think this is subject of the
 5 dispute in the CCN matter, funding from the parent corp, is
 6 it not?
 7 THE WITNESS: It is.
 8 MR. DeWULF: I'll -- based on our earlier
 9 discussion and based on the papers that have been filed,
 10 until we get a ruling from the ALJ, we're going to decline
 11 to answer those questions.
 12 MR. HIRSCH: Just so we're clear on this, we would
 13 be inquiring into the sources of the funds from the parent
 14 to the regulated utilities, which is the question I just
 15 asked, and then where the parent gets its infusion of sums
 16 from investors or financing outside sources, et cetera.
 17 But I'm understanding, Mr. DeWulf, that we have an
 18 agreement that those are out of bounds for purposes of this
 19 deposition, and that will be pursued with the ALJ; is that
 20 right?
 21 MR. DeWULF: That's correct.
 22 MR. HIRSCH: We would also be asking for full
 23 details of the role of ICFA funds in the financing of either
 24 the operations or the -- operations of utilities, or the
 25 acquisition of new utility acquisition targets by Global.

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1 I take it those are out of bounds as well?
 2 MR. DeWULF: There are a number of topics you just
 3 identified.
 4 But I think Cindy Liles has been identified as the
 5 deponent that will talk about the ICAs.
 6 I don't want to be premature with that.
 7 I think that what you've identified would be areas
 8 that we would object to, but I don't want to presume too
 9 much.
 10 I think it depends on the specific question you
 11 ask.
 12 MR. HIRSCH: Perhaps we can resolve this by
 13 confirming that Ms. Liles, who I agree, I think, has been
 14 designated as the 30(b)(6) deponent on that point.
 15 BY MR. HIRSCH:
 16 **Q. Let me ask, Mr. Hill, whether or not instructions**
 17 **are given or not to answer or allow me to get further into**
 18 **those issues, would you agree that Ms. Liles is the official**
 19 **with Global Water that is better able to address the**
 20 **specific tracking of ICFA funds?**
 21 A. Yes.
 22 **Q. Another area that we've identified for you to**
 23 **address, Mr. Hill, or you've identified that you might be**
 24 **able to address, is the savings to be achieved through**
 25 **common or shared employees or facilities for the water or**

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1 **wastewater facilities.**
 2 **Do you remember that generally?**
 3 A. Yes.
 4 **Q. We understand from the answers and supplemental**
 5 **answers to data requests produced by Global Water that the**
 6 **actual amount of savings are not able to be calculated; is**
 7 **that correct, from your perspective?**
 8 A. Yes.
 9 **Q. Have you made any attempts to calculate the**
 10 **savings?**
 11 A. Do you mean me personally?
 12 **Q. You or others at your direction.**
 13 A. No.
 14 **Q. Do you believe savings are achieved?**
 15 A. Yes.
 16 **Q. But it's just hard or impossible to quantify that?**
 17 A. Yes.
 18 **Q. Are there any written agreements in place**
 19 **between -- let's limit it to Santa Cruz Water Company and**
 20 **Palo Verde Utilities Company and Global Water Management**
 21 **concerning the management services that are provided by**
 22 **Global Water Management?**
 23 A. No.
 24 MR. DeWULF: Steve, we keep identifying Santa Cruz
 25 and Palo Verde as companies. I may be wrong. I thought

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1 they were L.L.C.s. And they're going to become companies.
 2 BY MR. HIRSCH:
 3 **Q. Mr. Hill, just so you know, I'm just using the**
 4 **name, not trying to pin you down to L.L.C. or C corp.**
 5 **Did you understand my questions that way?**
 6 A. Yes.
 7 **Q. So there's no contract between Global Water**
 8 **Management and those two utilities? It's handled instead**
 9 **as a bookkeeping entry within Global Water for those**
 10 **services?**
 11 MR. DeWULF: Object to form.
 12 THE WITNESS: Could you restate those questions?
 13 BY MR. HIRSCH:
 14 **Q. How does Santa Cruz Water Company and Palo Verde**
 15 **Utilities Company know what to pay Global Water Management**
 16 **for management services rendered?**
 17 A. Global Water Management renders a bill monthly.
 18 **Q. But there is no written agreement tracking the**
 19 **services provided?**
 20 A. That is correct.
 21 **Q. Does Global Water Management itself contract out**
 22 **any of those services to outside entities, or is it all in**
 23 **house?**
 24 A. Global Water Management has numerous contractual
 25 relationships with third party suppliers.

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1 **Q. Can you just generally describe what the nature of**
 2 **some of those might be?**
 3 A. Well, there are janitorial services, suppliers of
 4 office products, payroll, company contracts, other things
 5 that you would find that are typical of a company with
 6 100 employees.
 7 **Q. A billing services to customers, is that handled**
 8 **in house or contracted out?**
 9 A. Billing is in house.
 10 **Q. And customer service in terms of repair calls and**
 11 **similar service issues with customers, is that in house or**
 12 **contracted out?**
 13 A. In house.
 14 **Q. And engineering services, is that -- what category**
 15 **would you put that in?**
 16 A. We have probably ten professional engineers in
 17 Global Water Management. There are also numerous
 18 engineering firms we work with on a regular basis. Some in.
 19 Some out.
 20 **Q. One of the Rule 30(b)(6) categories you were**
 21 **identified as being able to address is the use of Central**
 22 **Arizona Project water allocations.**
 23 **Do you recall that?**
 24 A. I do.
 25 **Q. The data responses we've received to date indicate**

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1 **that Santa Cruz Water Company has not sold any surface**
 2 **water, including Central Arizona Project water, to date.**
 3 **Is that still the case?**
 4 A. Yes.
 5 **Q. And it is still the case that Santa Cruz Water**
 6 **Company has no CAP allocation; is that correct?**
 7 A. That is correct.
 8 **Q. There is information provided that Cave Creek**
 9 **Water Company provides a substantial amount of treated CAP**
 10 **water within the Global family of utilities. Is that still**
 11 **correct?**
 12 A. It was before that company was condemned.
 13 **Q. Did the condemnation of the assets of Cave Creek**
 14 **Water Company by the Town of Cave Creek include the CAP**
 15 **allocation that was held by Cave Creek Water Company?**
 16 A. Yes.
 17 **Q. So as of today's date, do any of the Global Water**
 18 **entities have a CAP allocation?**
 19 A. Well, technically Cave Creek Water Company, Inc.,
 20 still has the allocation.
 21 **Q. I'm not understanding. I thought you said it was**
 22 **condemned and transferred as a result of the condemnation.**
 23 **Is that still in process, or is it going to**
 24 **happen?**
 25 A. The transfer is subject to the bureau's final

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1 acquiescence, which has not taken place yet, so the surface
 2 allocation is technically still in the shell entity.
 3 **Q. You agree that as a result of the condemnation**
 4 **Global Water is not making any plans to make use of that CAP**
 5 **allocation while bureau approval is pending; is that**
 6 **correct?**
 7 A. That is correct.
 8 **Q. Is there any other CAP water in the Global Water**
 9 **inventory at present?**
 10 A. No.
 11 **Q. And the company still does not have a CAP water**
 12 **tariff; correct? By that I mean Global Water or any of its**
 13 **subsidiary utilities; is that correct?**
 14 A. I don't know what a CAP tariff is.
 15 Is that coffee back there?
 16 MR. DeWULF: In the black pitchers.
 17 MR. HIRSCH: I can't swear to the potability of it.
 18 THE WITNESS: Thanks, Steve.
 19 MR. HIRSCH: Is there steam coming out of it? I
 20 can get you a fresh pot.
 21 THE WITNESS: Thank you.
 22 BY MR. HIRSCH:
 23 **Q. Let me wind up by asking a couple questions about**
 24 **a couple of agreements that we haven't looked at yet.**
 25 **We looked at an early ICA.**

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1 **I'm going to ask you to look at Exhibit 4 now.**
 2 MR. DeWULF: Thank you.
 3 BY MR. HIRSCH:
 4 **Q. I'll tell you that there's no particular**
 5 **significance to the landowner that happened to come out of**
 6 **the pile here, which is SVBM 80 Limited Partnership, but**
 7 **rather we were picking one that's dated another year or so**
 8 **down the line from, in this case, coming up on two years**
 9 **down the line from the Exhibit 3 agreement, which was the**
 10 **Phoenix Capital Partners agreement.**
 11 **Would you agree just generically, Mr. Hill, that**
 12 **Exhibit 4 is a more mature and refined ICFA than the early**
 13 **infrastructure coordination agreement we earlier looked at?**
 14 MR. DeWULF: Object to form.
 15 THE WITNESS: Can you tell me what you mean by
 16 mature and refined?
 17 BY MR. HIRSCH:
 18 **Q. Mr. DeWulf doesn't like the words I'm using.**
 19 **You mentioned you had a role after becoming**
 20 **involved with the infrastructure coordination concept in**
 21 **improving the agreements.**
 22 **Is Exhibit 4 an improved version of Exhibit 3,**
 23 **from your perspective?**
 24 A. Yes.
 25 **Q. My own review of these indicate that the payment**

<p style="text-align: right;">Page 78</p> <p>1 obligations from the landowner continue to go up over time.</p> <p>2 Exhibit 3, for example, recites a 2200 dollar per</p> <p>3 EDU payment, and this one recites a \$3,840 per EDU payment</p> <p>4 in paragraph four.</p> <p>5 Do you see that?</p> <p>6 A. I do.</p> <p>7 Q. And ICFA agreements exist that are greater than</p> <p>8 \$4,000 per EDU.</p> <p>9 Isn't that true?</p> <p>10 A. That is true.</p> <p>11 Q. What goes into, at the present day, what goes into</p> <p>12 calculating the payment obligation of the landowner in the</p> <p>13 Global Water ICFAs?</p> <p>14 A. The fee is calculated as an interest carry for the</p> <p>15 presumed period of the buildout of the subject land.</p> <p>16 Q. And can you elaborate about how that sum is</p> <p>17 reached? Is there an internal formula of some sort that you</p> <p>18 use?</p> <p>19 A. I would say it's an approximation of interest.</p> <p>20 Q. I understand it's an approximation that's reached</p> <p>21 during the negotiation process, but tell me how you get</p> <p>22 there.</p> <p>23 Do you start by estimating the total buildout cost</p> <p>24 of all the infrastructure?</p> <p>25 A. It is fair to say that I have estimated the total</p>	<p style="text-align: right;">Page 80</p> <p>1 is that a variable or not?</p> <p>2 A. That's really an output.</p> <p>3 Q. I know the amount is, but I'm talking about do you</p> <p>4 assume a, you know, prime plus X rate, or prime minus X</p> <p>5 rate, or what interest rate do you assume to get the output?</p> <p>6 A. Like I say, it's an output. So you put all those</p> <p>7 other factors in. And that's what you get out is an RR type</p> <p>8 output percentage.</p> <p>9 Q. But to reach a dollar amount per unit, don't you</p> <p>10 have to give the model a rate of return that you want to</p> <p>11 get? What am I missing?</p> <p>12 A. I think there are probably more than one way to</p> <p>13 build a model.</p> <p>14 In this particular case, percentage is not an</p> <p>15 input item, it's an output.</p> <p>16 Q. If the entire amount of the payment obligation sum</p> <p>17 is not paid, the agreements typically call for a consumer</p> <p>18 price index adjustment to the amount paid over time; is that</p> <p>19 correct?</p> <p>20 A. That is correct.</p> <p>21 MR. HIRSCH: Just as a factor of discovery, rather</p> <p>22 than taking more of Mr. Hill's time here, we'd ask for,</p> <p>23 however it's best produced, the model or the formula that</p> <p>24 these numbers are put into, whether it's an algorithm, it</p> <p>25 doesn't sound too complex really, or a computer formula.</p>
<p style="text-align: right;">Page 79</p> <p>1 cost of all buildout infrastructure.</p> <p>2 Q. And then, I'm trying not to put words in your</p> <p>3 mouth, but get to the interest carry.</p> <p>4 Do you impute a market interest rate to that and</p> <p>5 then a period of time of time and break it down per unit?</p> <p>6 Or how do you reach, say, for example, in Exhibit 4, 3840</p> <p>7 per EDU?</p> <p>8 A. There's an empirically derived estimation of what</p> <p>9 it costs to provide water, wastewater, reclaimed water</p> <p>10 infrastructure per home, and a presumed absorption rate.</p> <p>11 And those elements are placed into a model that generates an</p> <p>12 approximation of the required interest carry.</p> <p>13 Q. What are the input variables to the model? We've</p> <p>14 already established number of EDUs, I take it?</p> <p>15 A. Number of EDUs. Cost per EDU.</p> <p>16 Q. Is that an input that varies or do you have a set</p> <p>17 estimation of water, wastewater, and reclaimed water per</p> <p>18 home?</p> <p>19 A. I have a set estimation.</p> <p>20 Q. And do you know what that is, as you sit here?</p> <p>21 A. Approximately \$10,000.</p> <p>22 Q. And then go on. Absorption rate?</p> <p>23 A. Well, first entitlement period, then construction</p> <p>24 schedule, then absorption rate, to build out.</p> <p>25 Q. And what about the amount of interest, the rate,</p>	<p style="text-align: right;">Page 81</p> <p>1 MR. SABO: You can send us a data request.</p> <p>2 MR. HIRSCH: Okay.</p> <p>3 BY MR. HIRSCH:</p> <p>4 Q. Now, stepping away from that component, are there</p> <p>5 other aspects of the ICFA agreements that you've had a role</p> <p>6 in amending, modifying, or improving since the early days of</p> <p>7 the agreements?</p> <p>8 A. Could you repeat the question, please?</p> <p>9 Q. Are there any other aspects of the ICFA agreements</p> <p>10 that come to mind that have been improved or modified in any</p> <p>11 significant way since Global Water went into business?</p> <p>12 A. When you say any other way, what would be the</p> <p>13 first way that I improved them?</p> <p>14 Q. Well, maybe it's easier to take Exhibit 3 and</p> <p>15 compare it to Exhibit 4, and jumping ahead I'll give you the</p> <p>16 third and last ICFA that we've marked, which is the</p> <p>17 construction agreement, which is right up to the end of</p> <p>18 2006.</p> <p>19 I'm just trying to have you give me a sense of</p> <p>20 whether comparing these documents allow you to summarize for</p> <p>21 us any baseline modifications that have been developed to</p> <p>22 the agreement over that time span, which is about three</p> <p>23 years by these documents.</p> <p>24 MR. SABO: Steve, could you hand out the other</p> <p>25 copies of that?</p>

<p style="text-align: right;">Page 82</p> <p>1 MR. HIRSCH: I'm sorry. I know you're aching to</p> <p>2 see it.</p> <p>3 MR. DeWULF: I'm aching. I'm not sure it's to see</p> <p>4 it.</p> <p>5 BY MR. HIRSCH:</p> <p>6 Q. For one thing, we can see that they've gone from,</p> <p>7 as typically happens, from an eighth of an inch to about a</p> <p>8 half inch thick. Not that that necessarily certifies</p> <p>9 anything. There's a lot of attachments to Exhibit 5.</p> <p>10 A. Well, the attachments are standard ICFA</p> <p>11 agreements.</p> <p>12 The improvement primarily focused on harmonizing</p> <p>13 the regional planning effort and the ease of permitting</p> <p>14 large areas.</p> <p>15 That's the difference between -- that's one</p> <p>16 difference between the third and fourth renditions.</p> <p>17 The fifth one --</p> <p>18 Q. When you say that, you mean Exhibit 3 and</p> <p>19 Exhibit 4?</p> <p>20 A. Correct.</p> <p>21 Q. Thank you.</p> <p>22 Go ahead with Exhibit 5.</p> <p>23 A. Exhibit 5 demonstrates the usefulness of ICFAs as</p> <p>24 it pertains to acquisitions.</p> <p>25 Q. Of new water companies and territories?</p>	<p style="text-align: right;">Page 84</p> <p>1 borrow or collect from your investors; correct?</p> <p>2 A. No.</p> <p>3 Q. What's wrong with my statement?</p> <p>4 A. The decision to buy a utility is not solely based</p> <p>5 on the development of investors or ICFAs.</p> <p>6 Q. I understand that, but isn't it true that if you</p> <p>7 are able to finance the acquisition through fees paid in by</p> <p>8 developers through other ICFAs that you don't have to get</p> <p>9 the money from other sources?</p> <p>10 MR. DeWULF: Object to form.</p> <p>11 BY MR. HIRSCH:</p> <p>12 Q. Let me say you don't have to get the money from</p> <p>13 either borrowing it or going back to the investors for more</p> <p>14 capital. Would you agree with that?</p> <p>15 MR. DeWULF: Object to form.</p> <p>16 THE WITNESS: No.</p> <p>17 BY MR. HIRSCH:</p> <p>18 Q. Again, what's wrong with my statement or my logic?</p> <p>19 MR. DeWULF: Object to the form.</p> <p>20 Go ahead, if you can break down his question.</p> <p>21 THE WITNESS: In some cases we still have to raise</p> <p>22 all of the money on day one to buy the utility from</p> <p>23 investors.</p> <p>24 BY MR. HIRSCH:</p> <p>25 Q. But those are instances where you're not using the</p>
<p style="text-align: right;">Page 83</p> <p>1 A. Yes.</p> <p>2 Q. And that is part and parcel of the business plan</p> <p>3 of Global Water, is it not?</p> <p>4 MR. DeWULF: Object to form.</p> <p>5 BY MR. HIRSCH:</p> <p>6 Q. Let me try to refine that.</p> <p>7 Using ICFA fees to acquire other water companies</p> <p>8 or certificated areas is consistent with Global Water's</p> <p>9 business plan, is it not?</p> <p>10 A. Yes, it is.</p> <p>11 Q. And in such circumstances the acquisitions can</p> <p>12 occur without additional infusion of capital by the</p> <p>13 investors but rather by fees paid by utility customers;</p> <p>14 correct?</p> <p>15 MR. DeWULF: Object to form.</p> <p>16 THE WITNESS: I don't understand the question.</p> <p>17 BY MR. HIRSCH:</p> <p>18 Q. The use of ICFA moneys for acquisition is in lieu</p> <p>19 of the need to have additional capital infused by investors</p> <p>20 in Global Water, is it not?</p> <p>21 MR. DeWULF: Object to form.</p> <p>22 THE WITNESS: Could you rephrase?</p> <p>23 BY MR. HIRSCH:</p> <p>24 Q. For every dollar you can raise through ICFA fees</p> <p>25 from developers, that is one dollar less than you have to</p>	<p style="text-align: right;">Page 85</p> <p>1 ICFA fees to fund the purchase; correct?</p> <p>2 A. Well, since ICFA funds are future oriented and</p> <p>3 acquisitions are present oriented, then I don't understand</p> <p>4 the question.</p> <p>5 Q. Let me ask it this way.</p> <p>6 Hasn't Global Water used ICFA fees paid by one</p> <p>7 developer to fund the acquisition of water companies in</p> <p>8 other areas unrelated to the first developer?</p> <p>9 MR. DeWULF: Object to form.</p> <p>10 THE WITNESS: Can you rephrase?</p> <p>11 BY MR. HIRSCH:</p> <p>12 Q. Is it true or not true, and I don't know the</p> <p>13 answer so you need to tell me, that the ICFA revenues come</p> <p>14 in and are used for acquisitions of water companies in areas</p> <p>15 that are different from the area for which they were</p> <p>16 collected?</p> <p>17 A. Well, we don't earmark every dollar of revenue</p> <p>18 from every different source, so revenue comes into Global</p> <p>19 Water Resources, pay tax on it, it becomes retained</p> <p>20 earnings, which is equity.</p> <p>21 We're also involved in acquiring utilities with</p> <p>22 equity.</p> <p>23 Q. So is it your testimony that it's not traceable</p> <p>24 dollar for dollar for that reason?</p> <p>25 MR. DeWULF: Object to form.</p>

<p style="text-align: right;">Page 86</p> <p>1 BY MR. HIRSCH:</p> <p>2 Q. Let me restate that. I wasn't trying to imply</p> <p>3 something sinister.</p> <p>4 I'm sure it's all traceable to accounting</p> <p>5 exactness.</p> <p>6 But the funds that come into Global are also funds</p> <p>7 that may be used to further its acquisition activities;</p> <p>8 correct?</p> <p>9 MR. DeWULF: Object to form.</p> <p>10 THE WITNESS: Could you be more specific?</p> <p>11 BY MR. HIRSCH:</p> <p>12 Q. You said revenue comes in from many different</p> <p>13 sources; correct?</p> <p>14 Would you agree with that?</p> <p>15 A. I would.</p> <p>16 Q. You pay tax on it. That's appropriate.</p> <p>17 You have retained earnings, which is equity;</p> <p>18 correct?</p> <p>19 A. Correct.</p> <p>20 Q. And then from that same pool of funds those funds</p> <p>21 are available to Global Water to finance or fund its</p> <p>22 acquisition of new water companies or new territories;</p> <p>23 correct?</p> <p>24 MR. DeWULF: Object to form.</p> <p>25</p>	<p style="text-align: right;">Page 88</p> <p>1 Q. Those would be the other principal categories of</p> <p>2 sources of cash for acquisition?</p> <p>3 A. Yes.</p> <p>4 MR. HIRSCH: Let's take our last break.</p> <p>5 I think I'm about done or done, and I just want to</p> <p>6 ask a few questions of my colleagues and we'll be done.</p> <p>7 (Brief recess taken.)</p> <p>8 BY MR. HIRSCH:</p> <p>9 Q. Mr. Hill, I appreciate your patience. We have one</p> <p>10 more area. It may be very short.</p> <p>11 It has to do with Global Water Management and what</p> <p>12 I understood your answer to be that it is purely a cost pass</p> <p>13 through entity and does not mark up or derive any profit</p> <p>14 from the management services it is providing to the</p> <p>15 operating entities. Is that correct?</p> <p>16 A. Yes.</p> <p>17 Q. Does Global Water Management, L.L.C., conduct any</p> <p>18 operations under which it makes a profit?</p> <p>19 A. No.</p> <p>20 Q. Does it conduct any operations other than what are</p> <p>21 described in Exhibit 2 that you've elaborated on in this</p> <p>22 depo concerning the management and related services to the</p> <p>23 operating entities?</p> <p>24 A. Yes.</p> <p>25 Q. What are those additional services or operations</p>
<p style="text-align: right;">Page 87</p> <p>1 BY MR. HIRSCH:</p> <p>2 Q. It is available to Global Water to finance the</p> <p>3 acquisition of water companies; would you agree with that?</p> <p>4 A. I would say that Global Water acquires utilities</p> <p>5 with equity.</p> <p>6 Q. And equity comes in from many different sources,</p> <p>7 including ICFA fees collected; correct?</p> <p>8 MR. DeWULF: Read that back, please.</p> <p>9 (Pending question read.)</p> <p>10 MR. DeWULF: Object to form.</p> <p>11 THE WITNESS: I would not say that revenue is</p> <p>12 equity.</p> <p>13 So no.</p> <p>14 BY MR. HIRSCH:</p> <p>15 Q. But isn't it consistent with your prior answer</p> <p>16 that ICFA funds received by the company eventually find</p> <p>17 their way into retained earnings and are available to assist</p> <p>18 in the acquisition of water companies?</p> <p>19 MR. DeWULF: Object to form.</p> <p>20 THE WITNESS: I would say that after tax ICFA</p> <p>21 revenue may be one source of cash among many for the</p> <p>22 acquisition of utilities.</p> <p>23 BY MR. HIRSCH:</p> <p>24 Q. And what are the other sources of cash?</p> <p>25 A. Other retained earnings. Cash from investors.</p>	<p style="text-align: right;">Page 89</p> <p>1 it conducts?</p> <p>2 A. Until very recently, we provided contract billing</p> <p>3 services to the Town of Cave Creek for wastewater, and I</p> <p>4 believe we do the same for the City of Buckeye for their</p> <p>5 wastewater infrastructure, which we don't own.</p> <p>6 Q. When you say until recently for Cave Creek, did</p> <p>7 that operation go away with the settlement of the</p> <p>8 condemnation case?</p> <p>9 A. Yes, it did.</p> <p>10 Q. And for Buckeye, does that operation, those</p> <p>11 services, continue for the Buckeye wastewater services that</p> <p>12 Global Water doesn't control?</p> <p>13 A. Yes.</p> <p>14 Q. And is that also at a pure pass through with no</p> <p>15 profit basis?</p> <p>16 A. Yes.</p> <p>17 Q. And are those services provided under a</p> <p>18 contractual agreement with the Town of Buckeye?</p> <p>19 A. I don't know.</p> <p>20 MR. HIRSCH: Mr. Hill, I think that's all I have.</p> <p>21 As any of your attorneys may have explained to</p> <p>22 you, Mr. DeWulf in particular, you'll have the opportunity</p> <p>23 to read and sign the booklet that the reporter will prepare</p> <p>24 and correct any mistranscriptions or other things you wish</p> <p>25 to correct, and then Mr. DeWulf is shaking his head that you</p>

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1 wish to avail yourself of that.
2 MR. DeWULF: We will read and sign.
3 Thanks, Marty.
4 (Whereupon, the deposition concluded at
5 5:20 p.m.)
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TREVOR HILL

* * * * *

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1 STATE OF ARIZONA)
2) ss.
3 COUNTY OF MARICOPA)
4 BE IT KNOWN that the foregoing deposition was
5 taken before me, Marty Herder, a Certified Court Reporter,
6 CCR No. 50162, State of Arizona; that the witness before
7 testifying was duly sworn by me to testify to the whole
8 truth; that the questions propounded to the witness and the
9 answers of the witness thereto were reduced to typewriting
10 under my direction; that the witness elected to read and
11 sign the deposition transcript; that the foregoing 90 pages
12 constitute a true and accurate transcript of all proceedings
13 had upon the taking of said deposition, all done to the best
14 of my skill and ability.
15 I FURTHER CERTIFY that I am in no way related to
16 any of the parties hereto, nor am I in any way interested in
17 the outcome hereof.
18 DATED at Chandler, Arizona, this 5th day of July,
19 2007.
20
21
22
23
24
25

C. Martin Herder, CCR
Certified Court Reporter
Certificate No. 50162

BEFORE THE ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY, an Arizona)
corporation,)
Complainant,)
-vs-) DOCKET NOS.
GLOBAL WATER RESOURCES, LLC, a) W-01445A-06-0200
foreign limited liability company;) SW-20445A-06-0200
GLOBAL WATER RESOURCES, INC., a) W-20446A-06-0200
Delaware corporation; GLOBAL WATER) W-03576A-06-0200
MANAGEMENT, LLC, a foreign limited) SW-03575A-06-0200
liability company; SANTA CRUZ)
WATER COMPANY, LLC, an Arizona)
limited liability corporation;)
PALO VERDE UTILITIES COMPANY, LLC,))
an Arizona limited liability)
corporation; GLOBAL WATER-SANTA)
CRUZ WATER COMPANY, an Arizona)
corporation; GLOBAL WATER-PALO)
VERDE UTILITIES COMPANY, an)
Arizona corporation; JOHN AND JANE))
DOES 1-20; ABC ENTITIES I-XX,)
Respondents.)

Phoenix, Arizona
June 26, 2007
1:40 p.m.

DEPOSITION OF CYNTHIA LILES
(Condensed Transcript with Word Index)

Prepared for:
Arizona Corporation
Commission

(COPY)

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DEPOSITION OF CYNTHIA LILES

The deposition of Cynthia Liles was taken pursuant to Notice before Karen M. Niemtschk, Certified Court Reporter No. 50447 in the State of Arizona, on June 26, 2007, commencing at 1:30 p.m., at the law offices of Bryan Cave, Two North Central Avenue, Suite 2200, Phoenix Arizona.

APPEARANCES

FOR ARIZONA WATER COMPANY:

BY: Mr. Robert W. Geake,
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Phoenix, Arizona 85004

FOR THE COMPLAINANT:

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FOR THE RESPONDENTS:

ROSKA DEWULF & PATTEN, PLC
BY: Mr. John E. DeWulf
Mr. Timothy J. Sabo
One Arizona Center
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Phoenix, Arizona 85002

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A. With Global.

Q. And who was that vendor?

A. Mountain State Pipes and Supply I believe is the name.

Q. All right. You have a general idea of what is happening today and I'm sure you have had a chance to visit with your counsel, but let me go over a few of the rules of the road, at least the way I would like things to proceed today.

First, I will try to make my questions clear but sometimes I fail. So will you please stop me and ask me to restate the question if you don't understand what I'm asking you?

A. Yes.

Q. And, in turn, if you answer a question I've asked, may I assume you understood what I was asking you?

A. Yes.

Q. You have done a good job so far but since the reporter can't take down a nod of the head or some nonverbal response, please keep your responses as you have been in a verbal format. Okay?

A. Yes.

Q. We are in an office setting here as opposed to being in a hearing room or a courtroom or something but you understand that you have been placed under oath and

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CYNTHIA LILES,

called as a witness herein, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. HIRSCH:

Q. Would you state your whole name for the record, please?

A. Cynthia Miller Liles, L-I-L-E-S.

Q. Would you give us your residence and business addresses.

A. My residence is 7646 East Soaring Eagle Way, Scottsdale, Arizona 85262. And my business address is 21410 North 19th Avenue, Suite 201, Phoenix, Arizona 85026.

Q. Have you had occasion to have your deposition taken before?

A. I have.

Q. Approximately how many times?

A. Just one.

Q. What was that generally in relation to?

A. A vendor was in a lawsuit and used us a deposition as a customer.

Q. And was that during your time with Global or with one of your previous employers?

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your answers are being transcribed by the reporter here?

A. Yes.

Q. And that your answers, since you're under oath, are subject to the penalties of perjury?

A. Yes.

Q. Is there any reason, Ms. Liles, that you're unable to answer my questions truthfully today, illness or medication or anything like that?

A. No.

Q. Okay. Thank you. What is your current position with the -- I'll just say generically, Global Water?

A. Senior vice-president for growth services and chief financial officer.

Q. And let me ask if we can to turn to Exhibit Number 1. Have you got a copy of that? It's the 30(b)(6) and it's probably because I didn't pass it around last time. You have been designated by the Global Respondent entities as being a person knowledgeable to testify on certain of the categories in this list; is that correct?

A. Yes.

Q. Can you tell us how -- we've already deposed Mr. Hill, as you know, I'm sure. How was it determined that you were the person most knowledgeable to testify as to the paragraphs that were listed for you?

MR. DEWULF: Object to form. Instruct you not to

2 (Pages 2 to 5)

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1 reveal whatever communications you may have had with
 2 counsel, but to the extent that you independently have
 3 knowledge as to how it was arrived at, you may go ahead
 4 and testify.
 5 A. I do not know exactly how I was determined to be
 6 the one.
 7 Q. Were you -- I want to get a refinement given
 8 Mr. DeWulf's objection. I'm not trying to pry into
 9 attorney-client privilege advice or communications, but
 10 did you receive a copy of Exhibit 1 and look through it
 11 and form any conclusions about which ones might be in your
 12 category to testify about at any point?
 13 A. No.
 14 Q. Were you informed that you would be designated as
 15 a witness to talk about certain paragraphs at some point?
 16 A. Yes.
 17 Q. Was that by your counsel?
 18 A. Yes.
 19 Q. Have you before today looked at the categories
 20 that are in Exhibit 1?
 21 A. Yes.
 22 Q. What were the circumstances of doing so, when and
 23 who was there?
 24 A. Can you be more specific?
 25 Q. I guess we will take them one at a time. That's

Page 7

1 fair. When did you first see this document, Exhibit 1?
 2 A. I'm guessing a couple weeks ago.
 3 Q. Once you were given the -- well, strike that.
 4 I'm gathering from your prior answer that you
 5 were given some information as to which of these
 6 paragraphs you might be asked to testify to; is that fair
 7 enough?
 8 A. When I received information it was -- they were
 9 designated which questions fell in my realm of knowledge.
 10 Q. And then -- and that's about the time you were
 11 given the document to look at?
 12 A. Yes.
 13 Q. And what did you do to prepare to address
 14 questions we might be asking on those categories?
 15 A. I briefly reread testimony that had been filed
 16 and that's it.
 17 Q. And when you say reread testimony, that's the
 18 prefiled testimony Q and A's that Global put together and
 19 filed in the certificate proceedings at the Arizona
 20 Corporation Commission?
 21 A. Yes.
 22 Q. Let's zero in on some of the topics here, and for
 23 ease of orientation, I will take them one at a time. The
 24 first paragraph as set forth in the exhibit, and I'll just
 25 paraphrase, talks about the property owners that have been

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1 contacted regarding entering into ICFAs. Can you start by
 2 generally describing your role for Global, and I'll use as
 3 we did in the first deposition, if I may, Mr. DeWulf, to
 4 mean all the Global entities unless I intend to be
 5 specific. Is that fair enough?
 6 MR. DEWULF: That's fine.
 7 Q. Take my question that way, Ms. Liles, if you
 8 would. Can you just generally describe your role in your
 9 position as senior vice-president regarding the handling
 10 or processing of ICFA agreements?
 11 A. That's a broad question. Can you be more
 12 specific.
 13 Q. Well, I'm trying not to put words in your mouth
 14 by asking leading questions. I thought we would start
 15 with just a general overview. Are you high on the
 16 administrative chain that reviews them after they have
 17 been negotiated and executed, or are you part of the
 18 initial contact process with the developers or owners that
 19 sign them, or all of the above?
 20 A. I'm involved at all levels.
 21 Q. Can you maybe list for us the typical involvement
 22 steps you have regarding ICFAs?
 23 A. Yes. The first step is normally a developer is
 24 contacting us for service. That developer is a builder or
 25 a broker.

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1 Next step would be generally to look at the area
 2 to see if it's near our service area. If so, we then
 3 physically meet with the developer to find out what their
 4 needs are. Their needs would be when do they want
 5 service, when do they plan to develop, their platting and
 6 zoning schedules.
 7 Q. And then the next step?
 8 A. The next step is we would then meet internally,
 9 so without the developer present. We would meet
 10 internally as a company with engineering to decide how we
 11 could serve, what would be our demand service, what is the
 12 capacity in our system, where is our nearest connection,
 13 and we would figure out internally how we could serve that
 14 development.
 15 We would then meet with the developer again to
 16 discuss how his development could be served. There is
 17 usually two options a developer has for service, one is a
 18 line extension agreement or a main extension agreement,
 19 and that is always offered to the developer. And then
 20 another opportunity that we offer is a financing mechanism
 21 which is the ICFA that you're asking me about.
 22 Q. All right. I will have questions about some of
 23 these subparts so let's go ahead and finish the steps so
 24 we're clear on that. What's the next step in the process
 25 then?

3 (Pages 6 to 9)

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1 A. The next step is the developer deciding which
2 direction to go, whether they want a LXA, or line
3 extension agreement, or if they're more interested in the
4 financing agreement.

5 Q. Let's assume for purposes of my questions that
6 the ICFA option has been elected. What's the next step?

7 A. The developers that, for the purpose of this
8 discussion are always developers who are not in a current
9 service area of ours and we would need to expand the
10 service area to include them, and we would present to
11 them, if they choose the ICFA way, we present to them a
12 price that is the same price given to each developer
13 within that specific CC&N expansion. So that each
14 developer is on the same level with each other for that
15 expansion.

16 If we come to terms where they're satisfied with
17 that particular agreement, then the agreements are signed
18 and executed. The CC&N expansion is prepared and the ICFA
19 agreements are record against the land.

20 Q. Does that pretty well summarize the steps in the
21 ICFA procedure?

22 A. In general, yes.

23 Q. Let me go back kind of chronologically in the
24 steps and ask a few follow-up questions. That's very
25 helpful. And I'm aware of your prefiled testimony that

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1 the Global entities have not actively, and I'm
2 paraphrasing, but not actively marketed the ICFA mechanism
3 or itself as a utility provider at least directly to
4 developers.

5 Is it your testimony that the developers who have
6 contacted Global and eventually negotiated and executed an
7 ICFA agreement came to Global of their own volition?

8 MR. DEWULF: Could you read that back, please.
9 (Previous question was read.)

10 MR. DEWULF: Object to form.

11 A. In my testimony I disclosed for the last
12 expansion for the southeast expansion that Arizona Water
13 Company has a dispute, that particular application,
14 roughly 97 percent of the developers who signed the ICFAs
15 were developers I had dealt with before or brokers I dealt
16 with before in our other areas.

17 Q. You used a term there that will be helpful as
18 shorthand. When you say, southeast expansion, is that the
19 expansion that's at issue in the certificate proceeding,
20 generally, that Global is seeking to expand?

21 A. Yes.

22 Q. I'll use that same lingo just for purposes of
23 short cutting. When you say 97 percent of developers you
24 had had a preexisting business relationship with in some
25 way, was that while at Global or as part of your prior

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1 employment as well?

2 A. Both.

3 Q. Are there any activity what you would consider to
4 be marketing or promotional steps that Global has taken to
5 promote or tout it's utility service and financing
6 packages --

7 MR. DEWULF: Object to form.

8 Q. -- to developers?

9 A. There are none.

10 Q. And I didn't mean to connote anything pejorative
11 about -- I would ask the same question as it relates to
12 service of any sorts that Global is providing. Is it your
13 testimony that there are no such promotional efforts that
14 Global has initiated?

15 MR. DEWULF: Object to form.

16 A. The only promotional efforts we make are not to
17 glorify Global or its financial services at all. The
18 promotional materials that we've produced relate to
19 conservation, the use of reclaimed water, trying to
20 educate customers and the public more about using towards
21 to the reclaimed water in the future as a measure of
22 conservation.

23 Q. And I believe examples of some of that literature
24 were submitted as part of the prefiled testimony, isn't
25 that right, if you know?

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1 A. I believe so but I'm not sure.

2 Q. Has Global, to your knowledge, ever sent out
3 letters or correspondence or brochures or similar writings
4 to potential utilities customers or developers promoting
5 it's services?

6 A. Not that I know of.

7 Q. What has your experience been in terms of
8 developers contacting Global? Do they tend to call you
9 individually, or are they calling the front receptionist
10 and directed to you, or how does that work to your
11 knowledge?

12 A. The large developers contact me directly from
13 having a relationship, a past business relationship with
14 me. Sometimes a small developer or small landowner may
15 call into the office directly and ask about service.

16 Q. To your knowledge, have there been any efforts
17 made by Global when you have potential customers who
18 approach you who are not contiguous to contact a property
19 owner that's located in between two potential customers in
20 order to fill in the certificate area that is being
21 requested?

22 MR. DEWULF: Object to form.

23 A. Can repeat that?

24 Q. I'm just trying to determine if there has ever
25 been a circumstance where you may have two overtures by or

4 (Pages 10 to 13)

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1 expressions of interest in your services by two landowners
2 who are not contiguous, and I'm asking if there has ever
3 been a company desire to file in the lack of the
4 contiguity and identify who, in my hypothetical, who the
5 owner might be in between the two and to approach them
6 about, hey, can we square off this service area?

7 MR. DEWULF: Object to form.

8 A. There is an interest to have property be
9 contiguous.

10 Q. Just because of the efficiency in providing
11 utility service?

12 A. Yes.

13 Q. To your knowledge, has that turned into efforts
14 by Global to identify the property owners who may control
15 the property in an area that might be a gap between two
16 customers to determine if they might join in a CC&N
17 application proceeding?

18 A. Not that I'm aware of.

19 MR. DEWULF: I just want to talk to my client for
20 a moment.

21 (Attorney-client conference ensued.)

22 Q. Do you have any amendments or changes to your
23 answers following your conference with counsel?

24 A. No.

25 Q. Thank you. Are there any other efforts that you

Page 15

1 are aware of that Global has undertaken to contact or
2 pursue in any way property owners who are in a gap area
3 between two people who have requested service to make a
4 formal request to service -- for service to Global?

5 A. Can you make the question more concise?

6 Q. I will try to. I think you established you're
7 unaware of any circumstance where anyone has tried to
8 identify a property owner and target them and join an
9 application, so I just intend to conclude this by asking
10 more generally, are you aware of any efforts by Global to
11 solicit or promote the addition of a property that may be
12 between two requesting property owners to join a CC&N
13 application or otherwise request service from Global?

14 MR. DEWULF: Object to form.

15 A. None that I know of.

16 Q. For example, does it come up in discussions with
17 the developers who have already contacted you that it
18 would strengthen our CC&N application if you approached
19 Property Owner X next door to you about seeing if he
20 wanted to request service from Global as well? Has that
21 ever come up in discussions that you recall?

22 A. Not at all.

23 Q. Okay. Have you ever encountered potential
24 customers, whether developers or owners or brokers, let's
25 limit it to the southeast expansion area, that are also

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1 contemplating requesting service from Arizona Water
2 Company?

3 A. Never.

4 Q. In all your discussions with such folks it has
5 never been mentioned about whether they're considering
6 Arizona Water Company as a service provider?

7 A. No.

8 Q. One of the steps you mentioned after the initial
9 meeting was to meet internally without the developer to
10 generally determine what might be a plan of service for
11 that developer. Do you remember that general step?

12 A. Yes.

13 Q. At that stage is it your testimony that the
14 mechanisms of line extension agreements as well as the
15 financing mechanisms of ICFA's are always being
16 considered?

17 MR. DEWULF: Could you read that back, please?
18 (Previous question was read.)

19 MR. DEWULF: Object to form.

20 A. When we meet to discuss how to serve the
21 development, we always consider all -- each way that a
22 developer can get service, whether it's by an LXA or ICFA.

23 Q. So I'm gathering that part of the internal
24 discussion isn't whether one or the other financial
25 mechanisms is appropriate but instead it's always assumed

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1 that both will be offered; is that accurate?

2 A. Yes.

3 Q. Just a few questions on Global's line extension
4 agreements. Is there a standard form that's offered in
5 terms of the years out in terms of repayment, or is that
6 something that's suited to the particular purposes of the
7 individual development?

8 MR. DEWULF: Could you read that back, please?
9 (Previous question was read.)

10 A. Each of the regulated utilities have line
11 extension agreements. Each read the same from developer
12 to developer. There are no differences in any way that I
13 know of.

14 Q. Is it possible for you to affix for us a
15 percentage of, in all of Global's operations in the state,
16 of developers who, or property owners or any customers,
17 who have elected the LXA versus the ICFA financing
18 mechanism?

19 A. I don't know the exact percentage. The
20 percentage would be very low for the numbers who opted for
21 an LXA versus an ICFA.

22 Q. Single digits would you, say as a percentage?

23 A. I'm guessing the answer, yes.

24 MR. DEWULF: Don't guess.

25 A. Okay. I don't know.

5 (Pages 14 to 17)

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1 Q. Well, you have been promoted as the person with
2 the most knowledge of this, and believe me I'm not going
3 to hold you to it. I don't know that we have any way to
4 cross check you what the percentage is, but would you
5 agree it's something over 90 percent have elected the ICFA
6 procedure as opposed to the LXA procedure?

7 MR. DEWULF: Object to form. You can testify to
8 what you know but I don't want you to guess.

9 A. I don't know a percent.

10 Q. Okay. Can you tell us whether it's more than
11 50-50?

12 MR. DEWULF: Same objection.

13 A. I can answer that more than 50 percent have
14 elected the ICFA as a financing mechanism.

15 Q. Is there anyone more knowledgeable than you at
16 Global who would be able to give us a general idea, not
17 held to exactness, of the percentage split between those
18 two mechanisms?

19 A. No.

20 Q. Have developers expressed to you reasons for
21 electing the ICFA mechanism as opposed to the LXA
22 mechanism?

23 A. Yes.

24 Q. And what -- can you give us some examples, I
25 don't need you to attribute who said what when, but some

Page 19

1 examples of the reasoning you've heard as to why the ICFA
2 financing mechanism has been chosen?

3 A. One of the reasons developers prefer the ICFA
4 agreement is that the payment that they make is deferred,
5 the majority of the payment they make is deferred to
6 closer to the time of final plat rather than paying up
7 front for infrastructure.

8 Q. Any other reasons that have been expressed to
9 you?

10 A. It's been expressed to me that they like the idea
11 that an ICFA agreement takes care of their utilities
12 solution for them. They like the idea that they do not
13 have to get knowledgeable on utilities for water and
14 wastewater and reclaimed water, that that solution is
15 being taken care of.

16 Q. In your experience has there been a particular
17 type or category of developer or property owner that's
18 been more prone to elect the LXA option versus the ICFA
19 option?

20 MR. DEWULF: Object to form.

21 A. Can you state it again for me?

22 Q. I'm just wondering in your experience if any
23 pattern has emerged as to developers who are more likely
24 to go with LXAs versus ICFAs?

25 A. Not that I know of.

Page 20

1 Q. Are you aware of any other utilities operating in
2 Arizona that offers ICFAs or ICFA-type agreements to
3 potential customers?

4 A. I'm not familiar with what other utilities are
5 doing.

6 Q. Does Global ever engage in negotiations over the
7 terms of the line extension agreement, or does it just
8 pretty well offer the form agreement that you referred to
9 earlier?

10 A. All of the line extension agreements have the
11 same terms. They're not negotiated. They have been
12 approved by the Arizona Corporation Commission and we
13 don't let them vary from developer to developer.

14 Q. I want to move on now to the step you generally
15 described concerning setting the pricing for ICFAs to be
16 the same for developers within a particular expanded
17 service area. Do you generally remember that?

18 A. Yes.

19 Q. Is there a kind of set parameter as to where you
20 consider to be an expanded service area that would have
21 the same price, in other words, number of acres or
22 sections or something, or is it more a determination
23 that's made by the company when the requests for service
24 are in?

25 MR. DEWULF: Object to form.

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1 A. Can you phrase it differently?

2 Q. I'm just trying to determine what the decision
3 point is to determine what a zone or service area would be
4 that would get the same pricing for each developer as you
5 described?

6 A. The ICFA is designed as a carrying cost for the
7 infrastructure to serve a development. That
8 infrastructure, part of it already could be constructed,
9 part of it may need to be constructed in the future or is
10 currently under construction.

11 Q. I'm trying to get to how big of an area would get
12 the same pricing? Is that a factor of how many developers
13 are there, the status of development as you just
14 described, or a geographic area or what?

15 MR. DEWULF: Object to form.

16 A. There are several factors that we use in
17 determining price. One factor is trying to organize our
18 CC&N filings where we come into the commission in an
19 organized fashion. We may go -- let me back up on that.

20 Basically if I've got an expansion that's pending
21 for that same area, we don't go into the Commission at
22 that point in time to expand yet another one in that same
23 area. So what generally happens is we accumulate requests
24 for service for the next expansion application. Within
25 that expansion application the only time you would have a

6 (Pages 18 to 21)

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1 different price would be a mitigating factor where the
2 costs would be higher to compensate for the location of
3 that particular development.

4 Q. Is it possible for that reason that there might
5 be applications for expansion that would include
6 landowners with ICFA's that have different pricing?

7 A. Can you say that again?

8 Q. Just trying to determine if it's possible that
9 Global's applications for expansion of its certificated
10 area might contain -- might be made up of landowners with
11 ICFA's with different pricing?

12 A. I've known that to happen one time. We have an
13 application pending today with the Commission where
14 various landowners have been waiting for service and we
15 put them all in the same application and it's before the,
16 I guess, I don't know that it's found sufficiency yet but
17 it's at the Commission now and it includes different
18 pricing because some of it is in the southwest part of our
19 service area, some of it's in the northwest part of the
20 service area and some is in the east. So because of the
21 location, we put all of them in one application to make it
22 organized for the Commission but there are different
23 prices in that particular case.

24 Q. And so just for ease of reference, where is that
25 located?

Page 23

1 A. Where is what located?

2 Q. What system are we talking about?

3 A. Santa Cruz and Palo Verde.

4 Q. So that's the one at issue in this case or
5 another application by Santa Cruz and Palo Verde, and by
6 this case, I mean the certificate dispute with Arizona
7 Water Company?

8 A. This one is not involved, as far I know, with the
9 dispute with Arizona Water. I just wanted to give you an
10 example of where there is a different price in the same
11 expansion area.

12 Q. That's what I'm trying to get to. Is it in
13 Maricopa?

14 A. Yes.

15 Q. Thank you. As you sit here at least that's the
16 only instance where you can recall where the pricing is
17 different?

18 A. Yes.

19 Q. And I'm not going to hold you to that but I'm
20 gathering that generally you try to structure the pricing
21 per EDU on the ICFA's the same for all the developers that
22 are bundled within a particular CC&N applications?

23 A. The purpose is to not have the ICFA amount be a
24 deciding factor if the properties are close to each
25 other. So the answer is yes, we keep the pricing the same

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1 for the developments that are within a certain area. So
2 we're not the reason for a pricing difference on the land.

3 Q. Mr. Hill testified generally to a -- because we
4 were talking about different pricing that with time
5 generally showed escalating or increasing mode, as might
6 be expected in today's environment. He testified to a
7 formula loosely that had been developed at Global that
8 input variables could be put into and this would generate
9 a potential ICFA unit price per EDU. Is there something
10 like that that is going on at Global in setting the ICFA
11 rates?

12 A. I'm not sure of what he testified to.

13 Q. I understand that. Have you looked at a
14 transcript of his testimony at all?

15 A. I have not.

16 Q. So acknowledging that you haven't read or heard
17 his testimony, is there a formula or equation or matrix or
18 some sort of shorthand that you all work on within Global
19 to develop that pricing?

20 A. There is a lot of analysis that goes into the
21 pricing. We do have -- I would say that we have a model.
22 The model would be one of several factors we would
23 consider.

24 Q. And what is the model made up of?

25 A. I don't know off the top of my head.

Page 25

1 Q. Is it a computer program that you input variables
2 in that spits out something that gives you a range of
3 numbers, or is it something more or less than that?

4 MR. DEWULF: Object to form.

5 A. We do quite a bit of analysis in Excel
6 spreadsheet software.

7 Q. What are the variables, to the extent that you
8 know, that Global looks at to assist it in reaching a
9 proposed ICFA price?

10 A. Some of the variables would be the infrastructure
11 that's in place today, the timing of when the
12 infrastructure is needed by the developer, that is some of
13 the variables.

14 Q. Is there an interest rate that's assumed for
15 purposes of the carrying cost?

16 A. Not one interest rate, no.

17 Q. Can you explain what interest rates are
18 considered or input into the formula?

19 A. The parent of the utilities has various sources
20 of equity that are available. And each of the sources
21 have varying rates. So we don't look at one specific
22 rate. It's at that point in time what our cost of capital
23 is.

24 Q. And can you summarize the various sources of
25 equity that are available to the parent for such purposes?

7 (Pages 22 to 25)

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1 MR. DEWULF: I think this is the subject of the
2 discovery dispute in the companion case, so I'm going to
3 instruct you not to answer. And I would like to take a
4 break whenever it's good for you.

5 Q. That's fine. Let me say, Ms. Liles, this may
6 have been explained to you, because of the matters that
7 are at issue in a pending motion to compel in the parallel
8 certificate case, Mr. DeWulf and I have agreed, rather
9 than lengthy speeches and justifications, we will simply
10 use a comment like he just said as a shorthand. I'm
11 preserving my right to maybe visit with you again in the
12 future depending on rulings about such topics, but I will
13 leave the topics alone so we can move through this,
14 understanding that it's in dispute at the moment.

15 And with that, let's go ahead and take our first
16 break. Thank you.

17 (Recess ensued at 2:33 p.m. until 2:55 p.m.)

18 Q. BY MR. HIRSCH: One of the steps you spoke about
19 is the ICFA being recorded. Do you remember that
20 generally?

21 A. Yes.

22 Q. Is there any discretion as to whether or not an
23 agreement is going to be recorded, or is the general plan
24 that every such agreement be recorded?

25 A. The general plan is every such agreement should

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1 be recorded.

2 Q. Are there circumstances in which Global has
3 entered ICFA's that are unrecorded?

4 A. The only ones that I'm aware of are the ICFA
5 agreements that were executed within the 16 sections, I
6 think it's known as Arizona Water Stanfield area.

7 Q. Are those generally in the sections that are
8 certificated to Arizona Water Company that is called its
9 Stanfield operation area?

10 A. Yes. I believe so.

11 Q. I don't have a map here but it's generally a
12 square that is nearly in the middle of the contested CC&N
13 applications between Arizona Water and Global?

14 MR. DEWULF: Object to form.

15 A. What I remember is it's four sections by four
16 sections. It is a square. And it's within our southeast
17 area.

18 Q. Now why haven't those ICFA's been recorded?

19 A. When the developer approached us for service we
20 did not realize that Arizona Water had that particular
21 service area. So we negotiated the ICFA, and I believe it
22 wasn't until we filed our CC&N application that we
23 realized that Arizona had the water for those 16 sections
24 so we have not recorded those ICFA's.

25 Q. And do the ICFA's in the Stanfield area cover all

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1 of the 16 sections or just a portion thereof?

2 MR. DEWULF: Object to form.

3 A. Our CC&N expansion for wastewater that's over the
4 16 sections is not all 16 sections.

5 Q. Maybe that's the shortcut to the answer I'm
6 seeking. Is the wastewater portion of the application by
7 Palo Verde coterminous with the signed but unrecorded
8 ICFA's?

9 A. Yes, I believe so.

10 Q. Now are those ICFA's addressing both water and
11 wastewater service?

12 MR. DEWULF: You are talking about the ones that
13 were not recorded?

14 MR. HIRSCH: Yes.

15 A. All ICFA's cover water, wastewater, and reclaimed
16 water services.

17 Q. So the answer is yes as to the signed ICFA's in
18 the Stanfield area?

19 A. Yes.

20 Q. And just to be clear, are each of those fully
21 executed by all parties but just unrecorded at this date?

22 A. I believe so.

23 Q. To your knowledge, it didn't come to anyone's
24 attention at Global that customers who held land in
25 another water provider's CC&N had instead come to Global

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1 for such service request?

2 MR. DEWULF: Object to form.

3 A. Can you rephrase?

4 Q. It's not until the application phase when it may
5 have been caught by staff at the Corporation Commission
6 that Global realized that it had entered ICFA agreements
7 for the provision of water service with customers within
8 Arizona Water Company's certificate?

9 MR. DEWULF: Would you read that back, please?
(Previous question was read.)

11 MR. DEWULF: Object to form.

12 A. I'm not exactly sure when we learned that Arizona
13 Water had a certificate in our expansion area. It may
14 have been our own attorneys who let us know that.

15 Q. After the application was filed or do you
16 remember?

17 A. I don't remember.

18 Q. Were there any systems in place as to -- within
19 Global at the time the Stanfield area landowners came to
20 you to request service, to check whether they were already
21 within another provider's certificated area?

22 MR. DEWULF: Object to form.

23 A. Can you say it again?

24 Q. Did Global have any systems in place to cross
25 check whether a customer requesting service was already in

8 (Pages 26 to 29)

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1 another provider's certificate?
 2 A. Yes
 3 Q. What were those systems?
 4 A. We had a map we believed to be correct to show
 5 the certificated areas. The map we had did not show
 6 Arizona Water within those 16 sections.
 7 Q. Do you know how the map was prepared or
 8 generated?
 9 A. I do not.
 10 Q. Is it your testimony that to your knowledge the
 11 developers who came to you never mentioned the provision
 12 of water service by Arizona Water Company?
 13 MR. DEWULF: You say you, do you mean her?
 14 Q. I mean you individually.
 15 A. Can you say the question again?
 16 Q. Did you -- I'm taking an earlier answer you gave
 17 me that you said never had anyone who had ever approached
 18 Global to your knowledge ever mentioned service by Arizona
 19 Water Company. Now I'm refining it to that four-by-four
 20 section area we've called the Stanfield area. Is it your
 21 recollection that none of those developers ever mentioned
 22 to you that they were within Arizona Water Company's water
 23 certificated area?
 24 A. They never mentioned to me that they were in
 25 Arizona Water's area.

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1 Q. Do you know whether they ever mentioned that fact
 2 to anyone at Global?
 3 A. I do not know.
 4 Q. Did it strike you as odd that customers were
 5 coming to you that were already within another company's
 6 certificated area for water service?
 7 MR. DEWULF: Object to form.
 8 A. What did you mean by odd?
 9 Q. Unusual or not frequently encountered.
 10 MR. DEWULF: Object to form.
 11 A. Can you ask it differently?
 12 Q. I don't know that I can. We will just move on
 13 and let Mr. Nodes deal with that series of form
 14 objections.
 15 Has Global taken any additional steps to address
 16 any instance where a customer may come in requesting
 17 service while being located within another public service
 18 corporation's certificated area?
 19 A. When the situation arose, our attorneys prepared
 20 us a map from the Arizona Corporation Commission's system
 21 to show us where all the utilities were located.
 22 Q. Has Global taken any other steps to help it avoid
 23 such a situation?
 24 A. No.
 25 Q. Are there any other executed but unrecorded ICFA's

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1 you're aware of anywhere in Global's system at present?
 2 MR. DEWULF: Did you say unrecorded?
 3 Q. Yes. Fully executed but unrecorded.
 4 A. I know of at least two.
 5 Q. And where are those located?
 6 A. It's in the Picacho area east of Eloy.
 7 Q. And why have those not been recorded?
 8 A. When we went to record the documents, either the
 9 land had changed hands and the landowner that signed the
 10 ICFA did not own it at the time of recording, either it
 11 changed hands since they signed our ICFA or they gave us
 12 the wrong entity to begin with.
 13 Q. So the documents were refused by the recorder?
 14 A. Yes.
 15 Q. Any other instances you can recall of fully
 16 executed but unrecorded ICFA's?
 17 A. There could be some.
 18 MR. DEWULF: He asked what you know about.
 19 A. I don't know the specific names but in our
 20 southwest area when we've gone to record a few of those we
 21 ran into the same situation. I don't know the names
 22 specifically.
 23 Q. The same situation that the wrong renter or
 24 developer entities may have been given to you?
 25 A. Yes. Or it had changed hands by the time we went

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1 to record.
 2 Q. And can you define for us generally what you mean
 3 by the southwest area?
 4 A. West of 347, south of the Ak-Chin reservation.
 5 Q. To the extent, I will address this to your
 6 counsel, it hasn't been clear that Arizona Water Company
 7 has sought the unrecorded as well as the recorded ICFA's, I
 8 will follow up with a specific data request, but we would
 9 like to see those, although we believe the request as
 10 stated called for both.
 11 Okay. Back to questions here. All right. Let's
 12 move to a couple of the exhibits that have already been
 13 marked in the proceeding. The Exhibit 2 should be the
 14 next one in the stack you have before you there. We went
 15 over this with Mr. Hill so I'm not going to dwell on it
 16 with you. I'll just ask specifically as to you, does the
 17 Exhibit 2 chart accurately show your percentage interest
 18 in the Global Water Management and Global Water Resources
 19 entities?
 20 A. Yes.
 21 Q. And Mr. Hill did not testify at length and that's
 22 part of our discussions about what needs to be resolved
 23 with the hearing officer, but he was allowed to testify
 24 that to his knowledge you did not spend any cash or cash
 25 considerations in exchange for your percentage interest in

9 (Pages 30 to 33)

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1 Global Water Management or Global Water Resources; is that
 2 correct?
 3 A. That is true.
 4 Q. I don't wish to pry into exact numbers but it is
 5 relevant to us generally how your compensation is
 6 structured. Can you just generally describe, and again, I
 7 don't need numbers, is it a salary plus a bonus or just a
 8 straight salary or what?
 9 A. Salary plus a bonus.
 10 Q. And to your knowledge, what are the components
 11 that go into the bonus?
 12 A. Can you be more specific?
 13 Q. Is it based on, as we lawyers would be familiar
 14 with, the number of hours that are billed in a given year,
 15 or is it, you know, a general subjective performance, or
 16 are there other objective criteria that are looked into?
 17 A. It is based on meeting objectives.
 18 Q. And what are the nature of those objectives?
 19 A. Timely financial reporting, a clean audit from
 20 our external auditors, timely filing of tax returns. I
 21 have several departments that report to me so their
 22 objectives are mine as well.
 23 Q. Any other factors?
 24 A. I'm sure there are others.
 25 Q. Who determines the bonus?

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1 A. Trevor Hill.
 2 Q. Is there any aspect of your bonus that is
 3 determined by the growth of Global?
 4 A. No.
 5 Q. Are the number of ICFAs entered into in a
 6 particular year?
 7 A. No.
 8 Q. Let's turn to Exhibit 3. And this we identified
 9 with Mr. Hill is a series of kind of older, less old, and
 10 then newer ICFAs. We're going to go to the older actually
 11 called call ICA. Do you see that in Exhibit 3?
 12 A. I do.
 13 Q. Now, before you joined Global you were employed
 14 with or by Phoenix Capital Partners, LLC; is that correct?
 15 A. Yes.
 16 Q. And can you tell us how you came about joining
 17 Phoenix Capital Partners?
 18 A. Yes. I was working with the developers who
 19 started Phoenix Capital Partners.
 20 Q. And who were they?
 21 A. Eldorado Holdings, Inc.
 22 Q. And at the time you were working with them were
 23 you in Phoenix?
 24 A. Yes.
 25 Q. What triggered your move from Memphis to Phoenix

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1 in 2001?
 2 A. An opportunity to learn real estate development,
 3 what I call curb down real estate development.
 4 Q. And what do you mean by that term?
 5 A. The installation -- the development from a raw
 6 piece of dirt, to see it from the beginning from when it's
 7 a raw piece of dirt, to be exposed to that kind of
 8 development.
 9 Q. And before that your testimony reveals that you
 10 were with a concern named Mid America Apartment
 11 Communities in Memphis; is that correct?
 12 A. Yes.
 13 Q. I'm trying to learn how you got involved with
 14 Eldorado and Phoenix Capital Partners. Did you send a
 15 resume out here, or did they approach you, or how did that
 16 come about?
 17 A. I was introduced to them by a gentleman in
 18 Memphis, Tennessee who invested in real estate out here
 19 with them. He introduced me to them.
 20 Q. And was there a particular person or persons at
 21 Eldorado that you initially worked with?
 22 A. Mike Ingram and Monty Ordman.
 23 Q. Now at that time were they involved in their
 24 development in the Maricopa area?
 25 A. Yes.

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1 Q. What were your initial duties with Phoenix
 2 Capital Partners?
 3 A. My initial duties with Phoenix Capital Partners
 4 was to learn the utilities industry so I could help the
 5 real estate developers understand what their investment
 6 included.
 7 Q. And what was Phoenix Utility Management, LLC?
 8 A. It was a sister company formed to manage the
 9 utility operations, if I remember correctly.
 10 Q. To help you along, if you look at page 8 of
 11 Exhibit 3 you will see what appears to be you signing for
 12 Phoenix Capital Partners as vice-president of Phoenix
 13 Utility Management, its manager member. Does that track
 14 your recollection of Phoenix Utility's role at that time?
 15 A. That is as I remember it.
 16 Q. What is your earliest recollection of the concept
 17 of an Infrastructure Coordination Agreement coming to be?
 18 MR. DEWULF: Object to form.
 19 A. When I joined Phoenix Capital Partners in the
 20 first of like January 2002 they had a financing agreement
 21 in place.
 22 Q. When you say a financing agreement in place, they
 23 had a form that was within their general policy and
 24 practice of using with developers?
 25 A. Yes.

10 (Pages 34 to 37)

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1 Q. I see Mr. Lanski here in the upper left as being
2 likely the person maybe this particular agreement was sent
3 to after recording, but whether or not that's the case, do
4 you remember him having any involvement in the negotiation
5 of Infrastructure Coordination Agreements for Phoenix
6 Capital Partners?

7 A. No.

8 Q. Do you know who the -- who had developed the
9 concept or idea of Infrastructure Coordination Agreements
10 such as the one we see on Exhibit 3?

11 A. I do not.

12 Q. What was your understanding of what the
13 Infrastructure Coordination Agreement accomplished back
14 when you started with Phoenix Capital Partners?

15 A. My understanding of the agreements were that the
16 landowners would look to Phoenix Capital Partners to
17 regionally plan for water, wastewater, and reclaimed
18 water. And that Phoenix Capital Partners would work with
19 the utilities to provide the backbone facilities to the
20 development.

21 Q. When you started with Phoenix Capital Partners
22 had Santa Cruz Water Company and Palo Verde Utilities
23 Company been established yet?

24 A. Yes.

25 Q. Had they been established at that point by the

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1 principals of Eldorado?

2 A. I believe so.

3 Q. Now Exhibit 3 is entitled Infrastructure
4 Coordination Agreement, and it speaks for itself in terms
5 of discussions with coordination but less so of
6 financing. Was there some point in time where this form
7 of agreement morphed or changed into, you can refer to
8 Exhibit 4, which is about two years later, an
9 Infrastructure Coordination and Financing Agreement?

10 MR. DEWULF: Object to form.

11 A. Can you rephrase the question?

12 Q. Sure. Do you have any insight how an ICA became
13 and ICFA over the course of two years?

14 A. What I know -- what I believe is after Global
15 purchased the interest in the utilities, this agreement
16 morphed and there is more clarity within the agreement.

17 Q. And what do you mean by clarity?

18 A. One item of clarity is the finance agreement.

19 Q. And how was that clarified?

20 A. There is a Recital G that's been added to make it
21 more clear as to what the intent of the agreement is in
22 Exhibit 4.

23 Q. Back shifting again to the Exhibit 3 era, do you
24 believe there was a financing component to the
25 Infrastructure Coordination Agreement that just wasn't

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1 incorporated into the title, or was the financing
2 component something that was added to the agreement later
3 when it was clarified?

4 A. It's my understanding that the Infrastructure
5 Coordination Agreement, Exhibit 3, was a financing
6 document, financing agreement just not included in the
7 name of the agreement.

8 Q. For the particular Recital G that you referenced?

9 A. Yes.

10 Q. Did you have any role in refining or clarifying
11 or changing the Infrastructure Coordination Agreement form
12 during your years with Phoenix Capital Partners?

13 A. What do you mean by role?

14 Q. Well, just that, any personal experience in
15 giving advice as to refinements that should be made to the
16 document or changes to it?

17 A. None that I know of.

18 Q. Do you remember who the attorneys were for
19 Phoenix Capital Partners during your years you were with
20 them?

21 A. Fennemore Craig.

22 Q. And who over there in particular?

23 A. Jay Shapiro.

24 Q. And can you describe for us how it came about
25 that you joined Global Water?

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1 A. Global Water purchased the membership interest
2 that Phoenix Capital Partners and Phoenix Utility
3 Management had in the regulated utilities. They offered
4 me a position to come to work for them with that
5 acquisition.

6 Q. Do you know the structure of the acquisition of
7 the two regulated utilities by Global Water?

8 A. I believe so.

9 Q. What was that?

10 A. From my recollection, Global Water Resources
11 purchased 100 percent of the membership interest that
12 Phoenix Capital Partners had in Santa Cruz Water Company,
13 and Palo Verde Utility Company and 100 percent of the
14 interest Phoenix Utility Management had in those same
15 utilities.

16 Q. Did the purchase of those membership interests
17 effect the complete conveyance of the regulated utility
18 entities to Global Water Resources?

19 A. Yes.

20 MR. HIRSCH: I think it would be subject to
21 matters, John, that are currently in dispute if I ask this
22 witness to go into the details, the pricing details of
23 that acquisition; is that your understanding?

24 MR. DEWULF: I'm not sure. Let me talk to
25 Mr. Sabo and see what that is. I think you can explore

11 (Pages 38 to 41)

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1 those areas, Steve.

2 MR. HIRSCH: I clearly recall there being
3 objections to the aspects of Global's own acquisition
4 activities after the point in time it acquired Santa Cruz
5 and Palo Verde.

6 MR. DEWULF: That's not what I understood the --

7 MR. HIRSCH: Right. It wasn't my question, so I
8 was probably extending that objection to this.

9 Q. So can you tell us what Global Water Resources
10 paid for those LLC membership interests in the Phoenix
11 Capital and Phoenix Utility Management entities?

12 A. I can't recollect the exact numbers.

13 Q. Can you give us an approximation?

14 A. Roughly 34 million.

15 Q. What were the terms of the payment of that sum or
16 approximately that sum?

17 A. A portion was set in escrow for two years. And
18 if I remember right, the balance was paid out at closing.

19 Q. And what was the escrow intended to cover?

20 A. There was money set aside in case there was any
21 issues with the construction of the facilities that may
22 have been found after the acquisition that related to
23 prior to the acquisition.

24 Q. Warranty type issues on what had been built,
25 generally?

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1 A. Yes.

2 Q. Were you part of the negotiations that led to the
3 purchase price of the membership interests?

4 A. No.

5 Q. Do you know whether any part of the purchase
6 consideration reflected the plant that was built in
7 operation or nearing operation?

8 A. Say the question again.

9 Q. I'm just trying to learn whether you know whether
10 or not any part of the purchase consideration was
11 ratcheted to physical plant and property?

12 MR. DEWULF: Object to form.

13 A. I'm not sure.

14 Q. Within Global's file there are individual files
15 kept by developer in terms of notes of the negotiations of
16 the ICFAs?

17 A. There could be some notes.

18 Q. Within the filing system are they broken out by
19 developer or by geographic section number? I'm trying to
20 get a sense of how your files are organized as it relates
21 to the ICFAs.

22 A. There is a file for each developer that has an
23 ICFA.

24 Q. And generally if any notes exist that may have
25 led to or relate to the negotiation of the ICFA or

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1 communications with the developer would it be in that file
2 to your knowledge?

3 A. It should be.

4 Q. Can you describe -- some of your prefiled
5 testimony indicated that the ICFA charges, again, I'm
6 paraphrasing, are roughly approximating the carrying costs
7 of the utility plant. Would you agree that that is a
8 general characterization of your testimony?

9 MR. DEWULF: Read that back, please.

10 (Previous question was read.)

11 A. I think so.

12 Q. How do the fees approximate those carrying costs?

13 A. I don't understand the question.

14 Q. How do we get from, if we look at Exhibit 4, and
15 it may be we've talked about it already with a formula or
16 other issues, but Exhibit 4 that we happen to have marked
17 in front of us recites a \$3840 per EDU fee or charge. How
18 does that relate to the carrying cost of the utility plant
19 for, in this case, SDVM 80 Limited Partnership?

20 A. This is one ICFA of many within an expansion
21 area.

22 Q. I appreciate that from your prior answers, but
23 how do we get from the EDU number to carrying costs?

24 A. As I said earlier, we would look at the needs for
25 a certain expansion area and determine what the carrying

Page 45

1 costs would be.

2 Q. Is there anything -- is there any way you can be
3 more specific than that, or is that basically what you
4 just described?

5 A. Basically what I described.

6 Q. When you have a grouping of the landowners who
7 have requested service that have led to an ICFA, do you
8 generally calculate the eventual cost of plant build out
9 and then start to break it down per EDU to reach that
10 figure?

11 MR. DEWULF: Object to form.

12 A. I've already explained how they are done. I'm
13 not sure how to answer the question.

14 Q. Let me ask a more specific question. If you have
15 an area that has executed ICFAs for some but not all of
16 the properties within that area, such as there might be
17 some gaps where you don't have an executed ICFA as we were
18 talking about earlier, do you calculate the overall
19 utility cost for all the utilities that might be built out
20 in that area or just in the areas for which you have
21 executed ICFAs?

22 MR. DEWULF: Object to form.

23 A. I'm not sure how to answer the question.

24 Q. Do you account for build-out costs in areas for
25 which you don't have an executed ICFA in reaching the

12 (Pages 42 to 45)

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1 carrying cost component of an ICFA?
 2 A. Can you read that back?
 3 (Previous question was read.)
 4 A. No.
 5 Q. I gather from that answer that the intent instead
 6 is to project the build out just for areas that are within
 7 properties for which there is an executed ICFA?
 8 A. I believe so.
 9 MR. DEWULF: I need to take a break, Steve.
 10 (Recess ensued at 3:47 p.m. until 4:08 p.m.)
 11 Q. BY MR. HIRSCH: I next would like to turn to some
 12 questions that Mr. Hill largely deferred to you concerning
 13 tracking of monies received under each individual ICFA
 14 agreement. So let me just ask generally, does Global
 15 maintain an accounting mechanism that individually tracks
 16 ICFA funds that come in per developer or landowner or not?
 17 MR. DEWULF: Object to form.
 18 A. Global tracks funds received for each ICFA.
 19 Q. And then does it track where those funds flow
 20 within the Global enterprises or entities?
 21 A. Yes.
 22 Q. Is there -- how does it track it? Is there an
 23 Excel spreadsheet or another accounting entry that does
 24 that?
 25 A. The ICFA money is considered revenue at the

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1 parent.
 2 Q. And that is perhaps an important preposition, at
 3 the parent. Do you mean that is considered revenue by the
 4 parent or to the parent?
 5 A. The ICFA is with the parent, Global Water
 6 Resources. The money that comes in is deposited into
 7 Global Water Resources' account and Global Water Resources
 8 records it as revenue.
 9 Q. If we look back at Exhibit 2, the flowchart which
 10 ought to be before you somewhere. Are returns upstream to
 11 the individual owners of the interests of the shares or
 12 the management percentage interests of Global Water
 13 Resources, are the individual ICFA funds tracked to the
 14 extent they would go upstream to any of those owners?
 15 MR. DEWULF: I didn't understand the question.
 16 Could you read it back. I'm just going to object to form.
 17 Q. Let me try to restate it. Once the money is
 18 tracked into Global Water Resources does it continue to be
 19 tracked to the extent it flows upstream to the owners of
 20 Global Water Resources?
 21 MR. DEWULF: Object to form.
 22 A. The ICFA money received by Global Water Resources
 23 is recorded as revenue at Global Water Resources' level.
 24 There are no distributions to the members except to pay
 25 taxes that would result from a K-1.

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1 Q. Are you saying there has never been any
 2 distribution from Global Water Resources to its members or
 3 just of the ICFA funds?
 4 MR. DEWULF: I'm going to instruct you not to
 5 answer. I'm not understanding the relevance to this
 6 lawsuit and I think it's probably covered by the earlier
 7 objections and positions taken in the companion case with
 8 issues regarding discovery.
 9 MR. HIRSCH: Just so we're clear so we don't
 10 belabor it, Ms. Liles will be instructed not to answer the
 11 extent to which ICFA monies may be pooled or aggregated
 12 and used in any distribution to the owners of Global Water
 13 Resources or Global Water Management?
 14 MR. DEWULF: No. I didn't say that. I don't
 15 think that characterizes accurately the record. What I'm
 16 saying is that I don't think that the -- that it's a
 17 proper line of questioning to talk about how money might
 18 be treated at the Global Water Resources level vis-a-vis
 19 the members. If you want to ask the relationship between
 20 the Global Water Resources, LLC and the developers under
 21 the ICFA agreements, you can ask about that.
 22 MR. HIRSCH: Okay. I'm just trying to -- I'm not
 23 here to argue the objections. I'm just trying to
 24 determine whether or not I'm going to be allowed to ask
 25 questions that would track ICFA funds, whether they are

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1 eventually commingled or intermingled or not, up to a
 2 return to the investors in Global Water Resources and
 3 Global Water Management. I'm hearing you say that part of
 4 it is out of bounds?
 5 MR. DEWULF: I think that presupposes facts that
 6 haven't been established, but yeah, I think that whole
 7 subject area would be out of bounds, the area of what
 8 occurs vis-a-vis the members relative to Global Water
 9 Resources, LLC.
 10 Q. I understand that and we will comply with our
 11 agreement regarding that. We may come back to that later
 12 but not today.
 13 I'm going to now shift to how within Global's
 14 records the ICFA funds are tracked after they're booked as
 15 revenue at the Global Water Resources level. Do they
 16 remain defined by the landowner or developer that paid
 17 them or do they aggregate into a more common fund at that
 18 point?
 19 MR. DEWULF: Object to form.
 20 A. We always know -- we know at all times how much
 21 each developer has paid on each ICFA.
 22 Q. Okay. That I appreciate, and I think it's been
 23 established. Now let's track what happens to those funds
 24 once they're taken in at the Global Water Resources
 25 level. Do they continue to be tracked by developer payee

13 (Pages 46 to 49)

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1 at that point or not?
 2 A. Not specifically.
 3 Q. What are some of the uses -- well, what are the
 4 various revenue streams into Global Water Resources other
 5 than ICFA payments?
 6 MR. DEWULF: Could you read that back?
 7 (Previous question was read.)
 8 MR. DEWULF: I'm going to object to that. I
 9 think that's probably -- again, I don't want to restrict
 10 what is proper questioning. I think if we can narrow it
 11 to -- I think the ICFAs is certainly and the relationship
 12 is certainly something you can explore. I don't know that
 13 getting into the finances of the parent is something I'm
 14 going to allow her to testify about. But you can talk
 15 about the monies that come from the ICFA agreements.
 16 MR. HIRSCH: All right. So I will take that as
 17 there would be instructions to the witness not to answer
 18 questions about any other revenue streams into Global
 19 Water Resources other than the ICFA funds?
 20 MR. DEWULF: You said it better than I did.
 21 Thanks.
 22 MR. HIRSCH: Okay. I mean, we will likely be
 23 discussing this perhaps on July 9th or elsewhere. It's
 24 hard for us to be able to relate, and likely for staff as
 25 well, how the ICFA funds play a role in the enterprises of

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1 the parent without knowing the rest of the picture.
 2 MR. DEWULF: Well, I don't know -- I guess you
 3 will presumably ask questions that you need to know about
 4 that.
 5 MR. HIRSCH: I'm trying to, but I'm understanding
 6 that she's going to be instructed not to allow me to even
 7 start with the building blocks of what the other revenue
 8 streams are.
 9 MR. DEWULF: And that is true, but what I think
 10 we have been suggesting is that you can ask questions
 11 about the ICFA agreements and those funds and what happens
 12 to those funds to the extent that you want to.
 13 Q. Let's make sure I've exhausted my inquiry into
 14 that. The ICFA funds come into Global Water Resources and
 15 you maintain tracking of who paid what amount by the
 16 developers, correct?
 17 A. Yes.
 18 Q. Then the funds are aggregated into general
 19 revenues of Global Water Resources and are no longer
 20 tracked specifically by the originating developer; is that
 21 fair enough?
 22 A. I can always track how much revenue came in by
 23 developer.
 24 Q. But if Global Water Resources pays a Culligan man
 25 water bill for the water cooler, or that might be a

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1 management component, as we heard from Mr. Hill, you are
 2 not tracking that half of that check was paid with ICFA
 3 funds that Elliot Homes paid for X, Y, Z property; is that
 4 fair enough?
 5 A. That's correct.
 6 Q. Does Global track the use of ICFA funds as they
 7 flow from Global Water Resources to the -- to regulated
 8 utilities at issue in this case, Santa Cruz and Palo
 9 Verde?
 10 A. No.
 11 Q. I take it it's the same answer as my water cooler
 12 hypo that it's no longer tracked specifically dollar for
 13 dollar at that point? Let me restate it. I think I may
 14 sense what your confusion is.
 15 The ICFA funds that may flow down to Santa Cruz
 16 or Palo Verde within Global's bookkeeping system are not
 17 specifically identified by who the originating developer
 18 payee was; is that correct?
 19 MR. DEWULF: Payor?
 20 Q. Payor. Sorry.
 21 A. ICFA monies do not flow into the utilities.
 22 Q. Now let me explore that because I think I have an
 23 understanding of what you're saying but the record may be
 24 unclear. The ICFA monies clearly flow into the utilities
 25 parent, Global Water Resources, correct?

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1 A. Yes.
 2 Q. And it's also true that monies flow from Global
 3 Water Resources to fund the operations of the regulated
 4 utilities; is that correct?
 5 A. That is correct.
 6 Q. Now when you say ICFA funds do not flow directly
 7 to the utilities, that's simply another way of saying the
 8 monies come into Global Water Resources; isn't that
 9 correct?
 10 A. The actual funds that flow into the regulated
 11 utilities from the parent are from a variety of sources of
 12 equity.
 13 Q. That's what I'm trying to get to. Including ICFA
 14 funds?
 15 A. The ICFA funds are carrying costs at the parent
 16 level.
 17 Q. I understand that, but they're meant to reflect a
 18 carrying cost of eventual installation of a utility plant,
 19 are they not?
 20 A. The funding from the parent to the utility is for
 21 the installation of the plant, not for the carrying cost.
 22 Q. Is any of the funding for the installation of the
 23 plant derived from ICFA fees?
 24 A. No.
 25 Q. And how is that accounted for?

14 (Pages 50 to 53)

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1 A. What, what's the question?
 2 Q. Well, how are you so certain with that answer?
 3 Let me strike that and ask it this way.
 4 Are the ICFA funds segregated in some sort of
 5 account when they are received from Global Water Resources
 6 so as to keep them separate from funding utility plant
 7 costs?
 8 A. Not in a separate bank account.
 9 Q. But as a bookkeeping entry they're kept
 10 separate?
 11 A. We track all money paid by developers on ICFAs.
 12 Q. I understand that. And you've told us that a
 13 number of times here, but you say it's not kept in a
 14 separate bank account but I take it it is kept in a
 15 separate accounting account label or number?
 16 A. It's tracked as revenue, so that's how it can be
 17 tracked.
 18 Q. If ICFA monies are not used to pay for the
 19 construction of the utility plant, what are some sources
 20 of operations of Global Water Resources that ICFA funds
 21 are used for, if any?
 22 MR. DEWULF: I think that's the same problem we
 23 ran into a moment ago in terms of the money at the parent
 24 level. It may be -- I don't mean to presume too much, but
 25 maybe if you asked the question from the regulated

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1 subsidiary level the other direction maybe you could get
 2 the answer you need.
 3 MR. HIRSCH: Well, I'm trying, as we have in the
 4 data request, to track the flow of ICFA funds. So I'm
 5 trying to define so the record is clear where I'm being
 6 allowed to do so and where I'm not. So we have them
 7 coming in. We have got it established that they don't go
 8 out for utility plant purposes. So I'm asking where they
 9 do go out to. Is this an area you will instruct her not
 10 to answer?
 11 MR. DEWULF: Can I huddle here for a minute? See
 12 if I can help you as best we can without trying --
 13 (Recess ensued from 4:28 p.m. until 4:35 p.m.)
 14 Q. BY MR. HIRSCH: We have been working off the
 15 record to try to clarify some of the level of potential
 16 discomfort about some of the answers that may relate to
 17 the pending disputes or lack of clarity or understanding
 18 on my part, and counsel has informed me out in the hallway
 19 generally that there is some timing issues as it relates
 20 to final plat and the timing, which is the nature of the
 21 carrying costs of the receipt of the ICFA funds and then
 22 eventually putting them into a plant. So let me try to
 23 distill the understandings that I've reached here and some
 24 questions and answers on the record here.
 25 I understand that because of the timing involved

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1 between the execution of the ICFA as you've described it
 2 and the eventual acceptance of a final plat, that Global
 3 does not account for each dollar of ICFA from a particular
 4 developer in a particular site through its accounting to
 5 go into an eventual utility plant at that site; is that
 6 accurate?
 7 A. Can you rephrase it?
 8 Q. I will try but I don't know that I can. ICFA
 9 funds will come into Global and the dollar that
 10 Developer A pays will not necessarily go eventually to pay
 11 for a utility plant that is installed, what might be years
 12 later, in Developer A's housing subdivision; is that
 13 accurate?
 14 A. That is true.
 15 Q. I understand that, and that seems to track the
 16 answers you've given and the testimony that's been
 17 submitted in the certificate proceeding. So I have no
 18 problem with understanding any of that.
 19 Are any ICFA funds from any source ever used to
 20 pay for physical plant and property and utility
 21 infrastructure that's put into the ground at any point by
 22 either of the regulated utilities, either directly or
 23 indirectly?
 24 A. No.
 25 Q. Is the source of capital for the construction of

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1 utility plants and property by the regulated utilities
 2 exclusively from sources other than ICFA monies?
 3 A. Can you ask the question differently?
 4 Q. I don't know that I can. If there is no ICFA
 5 funds ever that are used for utility plant construction,
 6 is it true that the sources of money used for utility
 7 plant construction are from sources completely separate
 8 from ICFA funds?
 9 A. Yes.
 10 Q. And what are the sources of the monies that
 11 eventually are used by Santa Cruz Water Company and Palo
 12 Verde Utilities Company to fund the installation of the
 13 utility plant on the property?
 14 MR. DEWULF: That I would instruct her not to
 15 answer and we're talking now -- I'm sorry. Go ahead and
 16 answer. Let's read the question back. I misunderstand.
 17 (Previous question was read.)
 18 MR. DEWULF: You can go ahead and answer. I
 19 withdraw my objections.
 20 A. The retained earnings of the regulated
 21 subsidiaries is redeployed into the sub. To the extent
 22 the retained earnings are not enough for cap X, then the
 23 parent funds what the sub needs for its cap X or
 24 operations, expenses.
 25 Q. When you say cap X, that's capital expenses?

15 (Pages 54 to 57)

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1 A. Capital expenditures.
 2 Q. And what are the sources of the retained earnings
 3 of the regulated subs?
 4 A. Retained earnings of the regulated subs is just
 5 purely the net income that's been earned by the
 6 subsidiary.
 7 Q. Based on rates they charge their customers?
 8 A. The retained earnings of the sub is a result of
 9 the operations, the net income or net loss, but it's the
 10 bottom line income from that subsidiary that forms the
 11 retained earnings.
 12 Q. Are the transfers of capital from the parent to
 13 the regulated subs as you described to meet any shortfalls
 14 from retained earnings as necessary documented by
 15 promissory notes or other -- well, promissory notes?
 16 A. I do not believe so.
 17 Q. Is there any agreement that's reached between the
 18 parent and the regulated sub, and in this case let's be
 19 specific as to Santa Cruz or Palo Verde, as a repayment or
 20 an interest component going back to the parent for that
 21 capital investment?
 22 A. No.
 23 Q. I mean, it's treated as a capital infusion versus
 24 a loan; is that accurate?
 25 A. Exactly.

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1 Q. All right. Let's go back up to the ICFA funds to
 2 the extent you will be permitted to answer, what becomes
 3 of those funds? No part of them ever goes down to the
 4 regulated subs; is that your testimony?
 5 A. Yes.
 6 Q. Where do those funds go?
 7 A. Funds come into the parent, Global Water
 8 Resources, and the parent has already incurred cost to be
 9 able to fund the subsidiaries for their shortfalls, so the
 10 ICFA money is a reimbursement of those costs, some of
 11 those costs that have been born by the parent.
 12 Q. Are there any other uses of ICFA funds other than
 13 that reimbursement component?
 14 A. Well, the money is taxed, so that reduces the
 15 amount of money received. And then the carrying cost has
 16 been incurred already by the parent and it helps with
 17 that. To the extent -- to the extent you had -- to the
 18 extent we would have excess ICFA monies, we would use it
 19 for consolidating utilities or buying utilities.
 20 Q. How are the carrying costs incurred by the parent
 21 accounted for in your system?
 22 A. I think the question is leading into more of what
 23 happens at the parent but I can tell you that we have
 24 various sources of equity that we use, and they have
 25 varying rates, so it would depend on what that source was

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1 as to how it was tracked at the parent.
 2 Q. I understand that. And you've answered
 3 previously on that. I realize I'm not allowed to go any
 4 further there. I'm talking about costs upstream from the
 5 regulated subs. They put in backbone infrastructure.
 6 Isn't that the nature of the carrying costs that the ICFA's
 7 are supposed to be reflecting?
 8 MR. DEWULF: Object to form.
 9 A. Can you ask it differently?
 10 Q. Maybe I'm missing the boat completely here in
 11 terms of what the carrying costs are that the ICFA fees
 12 are intended to address or reflect. What is the
 13 definition of a carrying cost under this ICFA system?
 14 A. It's the cost borne by the parent who had to
 15 finance the infrastructure for the subsidiary.
 16 Q. Okay. That's consistent with what I thought it
 17 was. How are those costs tracked so you know what to pay
 18 the parent back from the ICFA funds?
 19 A. I'm not following the question.
 20 Q. Okay. Let me give you a hypothetical. Santa
 21 Cruz Water Company puts in a \$100,000 worth of
 22 improvements financed by Global Water Resources for which
 23 Global Water Resources -- well, would you agree that's a
 24 carrying cost of Global Water Resources?
 25 MR. DEWULF: Object to form.

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1 A. The parent infuses capital into the subsidiaries
 2 as they need it. There is no pay back to the parent for
 3 that. The parent carries those costs.
 4 Q. Okay. You've defined it as costs borne by the
 5 parent who had to finance infrastructure by the
 6 subsidiary, right?
 7 A. Yes.
 8 Q. But there is pay back. The ICFA funds are used
 9 to pay back the parent, are they not, for those carrying
 10 costs? Isn't that the whole concept behind the ICFA?
 11 A. Yes.
 12 Q. My question relates to the accounting. If Santa
 13 Cruz puts in \$100,000 financed by the parent, Global Water
 14 Resources, how is that accounted for to be eventually
 15 reimbursed by ICFA fees?
 16 A. I don't follow the question.
 17 Q. How is it determined what is the carrying cost
 18 for -- that would be borne by the parent who had to
 19 finance infrastructure by the subsidiary? How is that
 20 number reached?
 21 A. We discussed earlier how ICFA numbers are reached
 22 by expansion area. So to the extent the parent takes the
 23 risk that the ICFA number will cover their carrying cost,
 24 that price was predetermined with the best information
 25 available at the time. There is no obligation for that

16 (Pages 58 to 61)

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1 developer to ever final plat or market the exchange and
2 there could be a delay when that payment comes in. So at
3 the parent we don't track it to see, did that ICFA fee,
4 was it adequate for the actual carrying cost. We have not
5 done that to date.

6 Q. And the same would be true if it turns out that
7 the projections were such that more ICFA funds were
8 actually collected than were needed to fund carrying
9 costs, correct?

10 MR. DEWULF: Object to form.

11 A. There has been no analysis done.

12 Q. To compare --

13 A. Specifics, yeah, specifically to compare the
14 actual cost, carrying cost, to when the payments came in.

15 Q. Has Global ever reimbursed an ICFA fund to any
16 landowner or developer?

17 A. Not that I know of.

18 Q. And I'll try this again, in terms of denominating
19 the amount of the carrying cost, is that booked as like an
20 account receivable by the parent once it finances such
21 infrastructure by the regulated subsidiary, or are all the
22 advances -- or strike that. Or are all the financing
23 costs fronted by the parent to allow the building of
24 infrastructure by the regulated subs aggregated in a big
25 account that isn't broken out by a particular sub?

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1 MR. DEWULF: Object to form.

2 A. I either need her to repeat it or maybe you can
3 rephrase it.

4 Q. Let me try another stab at it here and maybe
5 we're just incapable of doing this in this form, do it
6 down at the Commission or something. But if Santa Cruz
7 Water Company puts in infrastructure in a defined section
8 that the monies for which are fronted by the parent, are
9 you with me so far?

10 A. Yes.

11 Q. Okay. How is that amount that was funded
12 tracked? How do you know what the parent has fronted? Is
13 there an accounting entry on the ledger or something?

14 A. Yes.

15 Q. What triggers the payment over of ICFA funds to,
16 you know, within the parent, to account for that carrying
17 cost?

18 A. The investment the parent makes, to use your
19 example of a pipe in a section for Santa Cruz Water
20 Company, the investment the parent makes so Santa Cruz can
21 install the pipe is recorded as an investment in the
22 utility. So that part is separated on the books and can
23 be tracked, every investment we have made in a
24 subsidiary. Santa Cruz regionally plans so that
25 particular pipe is for several developments. It's a large

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1 regional pipe, some of which developers are all at the
2 table today, some of which there is a capacity in that
3 line because we have regionally planned it.

4 I can't answer your question as you've asked it
5 for that reason because that investment in that sub isn't
6 related to one ICFA, per se. And it's also -- I don't
7 have an ICFA for every -- to cover that cost necessarily
8 because I've regionally planned it for someone who might
9 come in in two years from now and might want service from
10 us.

11 Q. Okay. I understand all that, and I do appreciate
12 the clarification. And I think I'll let it stand on that
13 for now.

14 What would a, from your perspective, a proper
15 description of that accounting instrument that shows those
16 book carrying costs at any given point in time, what would
17 that be called?

18 A. I don't know.

19 Q. Is there any particular account number or number
20 code for carrying costs?

21 A. No.

22 Q. But you are saying you have accounted for it
23 within your system in some way?

24 A. Correct.

25 MR. HIRSCH: Let me ask some questions that are

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1 not deliberately structured to spur objections but they
2 may. We would seek to ask Ms. Liles about the source of
3 funds for some particular acquisitions which include
4 Francisco Grande and CP Water Company. So, Tim, we will
5 involve you in this discussion. Is that still out of
6 bounds under the status of objections because it tends to
7 go upstream to relate to funding to the parent?

8 MR. SABO: That's Francisco Grande and CP
9 Water?

10 MR. HIRSCH: Yes.

11 MR. SABO: Can we have a moment?

12 (Recess ensued from 5:00 p.m. until 5:06 p.m.)

13 Q. BY MR. HIRSCH: Do you want to have the court
14 reporter read the question or are you ready to answer?

15 A. I can answer. CP Water Company acquisition will
16 be paid for by the ICFA fees when they are received
17 pursuant to the ICFA with -- pursuant to I could say
18 Exhibit 5.

19 Q. And that happens to be the recent example of the
20 ICFA that we marked with, in this case, CHI Construction
21 Company, correct?

22 A. Yes.

23 Q. So if we relate that flow of funds to the prior
24 answer in terms of ICFA funds coming in, is that an
25 example of an instance where particular ICFA funds are

17 (Pages 62 to 65)

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1 kept separate and aggregated just for use for a particular
 2 purpose?
 3 A. Per this ICFA, the landowner would reduce how
 4 much their ICFA fee was to allow for the purchase of CP
 5 Water.
 6 Q. Have any funds been paid to CP Water at this date
 7 by Global Water Resources or any other Global entity?
 8 A. No.
 9 Q. I take it from your earlier answer that such
 10 funds will not begin to flow until CHI begins making
 11 payment under the Exhibit 5 ICFA agreement?
 12 A. Yes.
 13 Q. Are there any funds that will be used for the CP
 14 Water Company acquisition other than CHI ICFA fees?
 15 A. Can you repeat question?
 16 (Previous question was read.)
 17 A. No.
 18 Q. Are there any other acquisitions that have been
 19 established under a similar ICFA agreement?
 20 A. Can you read the question again?
 21 Q. Let me restate it so we're clear. Are there any
 22 other water -- strike that.
 23 Are there any other utility acquisitions by the
 24 Global entities that are funded in the same manner as the
 25 CP Water Company acquisition that you just described?

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1 A. Not that I remember.
 2 Q. And I'll ask a refinement question. Are there
 3 any others that are being acquired exclusively with ICFA
 4 funds?
 5 A. Can you rephrase the question?
 6 Q. I'm not sure I can do that. I can't rephrase
 7 it. I'm trying to get to whether there are any other
 8 acquisitions that have occurred by the Global entities
 9 that used or will use exclusively ICFA fees to fund the
 10 acquisition?
 11 A. What do you mean by exclusively?
 12 Q. No other capital, equity, debt, or other infusion
 13 or sources of funds for the acquisition.
 14 A. I believe the answer is no if I'm understanding
 15 the question right.
 16 Q. And let's move to Francisco Grande. How is that
 17 being acquired?
 18 A. The funding for the acquisition for Francisco
 19 Grande for the acquisition price will take place when the
 20 CC&N -- I believe when the CC&N will transfer to Santa
 21 Cruz and Palo Verde.
 22 Q. Okay. I understand that as to the timing. How
 23 will the acquisition be funded?
 24 A. Part of the funding will be paid by CHI
 25 Construction pursuant to Section 4 little E of the

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1 Exhibit 5, the ICFA. The remaining portion of the
 2 purchase price will be funded by Global Water Resources.
 3 Q. And what is the total amount of the acquisition
 4 price?
 5 A. \$8 million for Francisco Grande.
 6 Q. And how much for CP?
 7 A. One million two fifty.
 8 Q. And of the 8 million am I reading 5 E of
 9 Exhibit 5 correctly that 6.050 million of that is
 10 effectively coming from CHI Construction?
 11 A. Not exactly.
 12 Q. Correct me and clarify, please.
 13 A. In paragraph E, the six million zero fifty number
 14 that's referred to there is a million two fifty of that is
 15 CP Water, and the balance is the portion CHI is paying for
 16 or financing, maybe paying for Francisco Grande.
 17 Q. Okay. I appreciate that clarification. If I'm
 18 doing my math right then, it's 4.8 million that is the
 19 amount that CHI is financing or paying for Francisco
 20 Grande; is that correct?
 21 A. Yes.
 22 Q. And the balance of the eight million purchase
 23 price is coming from Global Water Resources?
 24 A. Yes.
 25 Q. And I take it consistent with the earlier

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1 instructions, Mr. Sabo is shaking his head at this late
 2 hour, that I will be precluded from asking the source of
 3 those funds; is that correct?
 4 MR. DEWULF: That's correct.
 5 Q. Have any of the landowners or developers in the
 6 Global ICFAs defaulted to the present date?
 7 A. Not that I know of.
 8 Q. Nowhere in the state of Arizona out of the
 9 hundred plus ICFA has there been a default?
 10 MR. DEWULF: Object to form.
 11 Q. Go ahead. Not that you know of?
 12 A. Not that I'm aware of.
 13 Q. To your knowledge, has Global Water Resources had
 14 to send any demand letters or take any steps to attempt to
 15 enforce or otherwise accelerate, not accelerate -- enforce
 16 the obligations under an ICFA in any way?
 17 A. No.
 18 Q. Let me check my notes here. I think at this
 19 time, subject to hashing out the objections that were
 20 stated into other areas of inquiry, that I've gone about
 21 as far we can go today. So we appreciate your time.
 22 You will have the chance, as probably has been
 23 explained to you, to read the transcript and sign it.
 24 MR. DEWULF: She will want to read and sign.
 25 MR. HIRSCH: Thank you.

18 (Pages 66 to 69)

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(The deposition concluded at 5:25 p.m.)

CYNTHIA LILES

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1 STATE OF ARIZONA)
2) ss.

3 COUNTY OF MARICOPA)

4 BE IT KNOWN that the foregoing deposition was
5 taken before me, KAREN M. NIEMTSCHK, Certified Court
6 Reporter No. 50447, in and for the County of Maricopa,
7 State of Arizona; that the witness before testifying was
8 duly sworn by me to testify to the whole truth; that the
9 questions propounded to the witness and the answers of the
10 witness thereto were taken down by me in shorthand and
11 thereafter reduced to typewriting under my direction; that
12 pursuant to request, notification was provided that the
13 deposition was available for review and signature; that
14 the foregoing 70 pages are a true and correct transcript
15 of all proceedings had upon the taking of said deposition,
16 all done to the best of my skill and ability.

17 I FURTHER CERTIFY that I am in no way related to
18 any of the parties hereto nor am I in any way interested
19 in the outcome hereof.

20 DATED at Phoenix, Arizona, this 6th day of July
21 2007.

22
23 Karen M. Niemtschk, CCR
24 Certified Court Reporter No. 50447
25

19 (Pages 70 to 71)

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